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Application Mechanisms of Sales Tax in the GCC Countries: An Empirical Study on the Kingdom of Bahrain

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Abstract

The Gulf Co-operation Council (GCC) countries (i.e. Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and the United Arab Emirates) enjoy one of the least demanding tax systems in the world. The average total tax rate for the entire Middle East region is 23.6 percent, which is much less than the global average of 44.7 percent. Thus, the taxation structure and system of the GCC nations is uncomplicated when compared to rest of the world. Moreover, the GCC nations depend heavily on indirect taxes and revenue from energy exports, rather than internally generated funds. Though this system has its advantages, it may become a cause of concern for authorities in the future as taxation can influence the overall growth in different dimensions. Thus this study analysed the effect of sales tax collection on the economic development in Bahrain. To do so, a structured survey was conducted for receiving observations of 384 tax payee respondents in Bahrain and to analyse the effect. The data is analysed and hypothesis is tested by using IBM-SPSS-AMOS package 25.0. The study found that the direct effects of sales tax on the economic development in Bahrain are positive and significant. The originality of the manuscript goes back to studying the concept in the Arab world. On the basis of the result, this research endorsed that, the economic development in Bahrain is heavily in line with consistent growth of revenue collection efficiency.

Keywords: GCC Nations, Tax, Economic Development, AMOS, Bahrain

I. Introduction

Worldwide analysts are expecting another slowdown for the world economy that is dragging its hands in the aftermath of years of anemic and sluggish financial crisis recovery. For most developed countries, the years 2011 and 2012 have had comparatively low performance, and the 2013 outlook is no different. Such findings have compounded the insecurity of the current work crisis in most developed economies and will definitely affect developing countries ' earnings growth. This is why the ongoing vulnerabilities in major developed economies, such as the workforce problem and deteriorating development

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forecast, remain un resolved after the 2008-2009 great recession, have contributed to a severe, revived global downturn.

Global growth in 2012 dropped to nearly 3%, ridding the long-term trend since the crisis about 50 percent (Elecon Engineering Company Limited, 2012). Regional instability–from the US ' fiscal dispute' following the election to the change of Chinese leadership and eurozone changes–would remain a factor in worldwide slowness in exchange and cautious foreign direct investment. Because the Middle East area is highly dependent on oil exports, bad information about the world economy may have a significant impact on the price of crude oil. Conversely, the reported rise in oil prices with the "rebound" in the US economy as of December 2008 indicates a near and true connection between oil and recession. Given the above scenario, it is evident that the GCC nations do not resist the effects of the world economy, which suggests that governments of the GCC nations might have to look for new sources of funding for their smooth operations. The aim of this research is: (1) to provide a historical perspective on the past of fiscal problems in GCC countries and (2) to carefully examine comparative benefits of GCC taxation.

Historical Overview

The GCC states have a taxation problem which started at the end of the 1980's. In 1955, Kuwait introduced corporate tax and until 1975, Saudi Arabia collected foreign taxes. While in 1975, because of the rising oil revenues and the need to reclute large numbers of foreign labor for the growth of their economy and infrastructure, Saudi Arabia abolished the levy, the tax was restored in 1988 in order that diminishing oil revenues could be balanced.

In 1985 the Bahrainian Government tried to impose personal or economic taxation, but was met with considerable resistance, because it was at the time "an proposal that all the local populations perceived to be highly bourgeois and completely unArab" (Field, 1985).

In the early 1990s, members of the GCC countries carried out a review of the viability of the implementation in their economic reform of value added taxation (VAT). In 1994, Oman adopted a corporate tax in line with this report, which eventually excluded other industries and programs, while oil prices declined continuously. But most GCC states remain hesitant to enforce taxation because of concerns of disruption for international and domestic companies and investors. In a study from 1992, the wider regional condition in Bahrain was highlighted when it noted, few small-heavily clandestine-attempts to raise fiscal revenues were made, but the political obstacle is known to be more obvious methods such as income taxes (Mathew 1992).

In the early 1990s, the GCC States started to be urged to adopt fiscal policies by international organizations like the United Nations, Moody's, and the IMF. In 1997, the United Nations Economic and Social Commission's 1997 Annual Report for West Asia acknowledged "the important potential[for the GCC States] for... removing exemption from duties, raising exercise fees, and introducing the implementation of limited taxation on luxury goods. For Qatar, a 1998 study suggested by Moody's credit rating agency, "When oil prices are low the state will have to take corrective fiscal steps so as to minimize untenable fiscal deficits" (Global Credit Report, 1998). In those days, Qatar did not have any type of corporate tax and subsidized the public sector, health and education. In 2000, the Finance Minister of Kuwait announced that Kuwaitis should become accustomed to the idea of income tax. In view of some Kuwaitis stating that they would have no problem paying tax as infrastructure strengthened as a consequence, the plan faced fierce opposition in the Kuwait parliament along with other steps for restructuring the Kuwait economy.

Saudi Arabia and Oman jointly declared tax cuts for foreign businesses in 2000 to encourage further foreign investment. In a 2001 IMF report, GCC states were not dependent on oil sales any longer and urged GCC countries to decrease spending and introduce export tax, business income tax, consumption tax and value added taxes. Nonetheless, the IMF's consultations noted the initiatives of Kuwait to amend its corporate tax regulations and recommended high taxation on luxury goods (IMF 2001). In Qatar, the IMF "forced the governments to absorb, expand current sources of income for non-oil, by implementing slowly a new tax regime, centred on taxation. The IMF, was planned to mobilise non-oil revenue through means of administrative changes, early implementation of indirect taxation, and the elimination of specific duty and charges (International Monetary Fund, 2002). The UAE proposals included implementing a wide-ranging, new tax regime aimed at reducing the tax expansion of tax hazards in line with the policies already developed in the other GCC countries, and consider introducing a broad low tax on services by local governments. Different executives urge the governments to make use of the Tax Reform and Institutional Technical Assistance Program "(International Monetary Fund, 2003). The Oman levy on expensive goods and services and a basic properly held fee should be introduced "in the short term by the IMF to replace the current leasing structures" (International Monetary Fund, 2010).

The Regional Analyses

In the Middle East region, jobs and social services account for the largest share of the global fiscal scale, paying amount and time, which vary substantially from the world average. The economics of the region, except for the West Bank (Gaza), where the employer has no labor taxes, are characterized by labor taxes and social contributions in general. It is also important to note that several countries classified as GCCs (Kuwait, Qatar, Oman, Bahrain, SA and United Arab countries) are dirty. Some overall average corporate income taxes are also levied on developing economies. The average price is also demonstrated by the absence of sales and "other" income.

The total tax rate has dropped by only 2.5% after paying taxes in 2007 and has been steady in recent years. The overall tax rate fell on average in 2006 and 2007 from 41.4 percent to 28.1 percent. This is mainly due to the replacement by the Republic of Yemen for the output tax (which was a cascade levy). In turn, this country raising the corporate income tax rate from 35% to 20% in 2010. In any of the Middle East countries, the total tax rate has not changed substantially in the last year.

Less chaos occurred in the Middle East through 2012 than ever before. Tumbling has occurred, and other totalitarian regimes can respond. Economic injustice and poverty are prevalent in the Arab Republic, Libya, Tunisia and Yemen; the' Arab Spring' has been instrumental in government reform. There have also been turbulent years for oil-rich countries. But these countries took rapid steps to stop the difficult situation by offering economic incentives and direct cash transfers for people who depend on continuous oil returns.

The government has used additional spending and taxation in less prosperous countries to fund the necessary support for the state.

Notwithstanding the big troubling incidents, governments in the Middle East have not introduced any dramatic changes to their tax systems so far, as shown by the findings of the Paying Tax report. The metrics are very predictable and the overall tax rate and time to reach measures show that payment charges in the area are the least difficult. For a number of reasons, the area remained a pioneer in the report. Secondly, modern taxation and the analysis of its potential impact in the area has been a long and slow process. New taxes have not been imposed and low tax systems have yet to extend to domestic investors in the country. Furthermore, as a completely domestic company, it would be interesting to note that corporate tax law for the majority of GCC countries (except for Oman) is stricter for foreign investors, whereas domestic corporations are almost tax exempt. Eventually, because of the absence of export taxes and other indirect taxes, the GCC countries ' enforcement ratio is below the world average.

The United Arab Emirates has the fourth best corporate tax system in the world that helped draw FDIs to this country in the world during the crisis, according to a new study. The report was co-produced by the World Bank group (PwC) and the International Finance Corporation (World Bank, which PwC 2013) and independently carried out by PricewaterhouseCoopers (PwC) under the study,, The Global List of Transaction Taxes 2010 "The report was co-produced by both the World Bank, the PwC and the International Finance Corporation (PwC 2013).

Although the immediate effects of recent Middle East events and the global economic crisis have not been specifically expressed in major changes to fiscal policy, in general, many Middle East countries have adopted new tax laws. New income tax laws in Qatar and Jordan and revised modifications in benefit regulation in Egypt are the most important changes worth mentioning. We were also seeing the creation of an extra taxation class in Lebanon, leading to an increase in tax rates for corporations, entities and indirect taxes (not including 10% VAT) for firms and private persons with a higher income and benefit.

The governments in the Middle East must face the challenge of growing their fiscal revenues in future with increasing spending needs and requests of increased economic freedom by the people, either by introducing new taxation (for example VAT), through widening the base of taxes (through taxing citizens'-owned companies) or by raising tax levels (as certain countries have already started). In the next two or four years, the GCC countries will also try to implement a VAT scheme. To order to balance their own expenditures both oil-rich and non-oil-rich policymakers must continue to improve fiscal performance while ensuring a favorable business environment for businesses, with a sluggish global economy and possible inflation to oil prices. In all this, one thing is certain: change is inevitable in the Middle East. In 2003, a free trade zone and a common external tariff was developed to effectively remove open trade barriers within the GCC. To date, the scheme has not been fully functioning because of disagreements between governments on the allocation of customs revenues. To resolve the dispute about the revenue sharing that is to be completed in 2014, the customs union authority was set up. The choices involve splitting customs taxes by import volume, population or share of the individual country's gross domestic product.

Competitive Advantage

Concurring value is the ability to operate at a level higher than other in the same sector or competition by qualities and capabilities (Lynch, 1999). The analysis of competitive advantage has attracted a deep interest in study because of contemporary problems related to firms ' superior performance in current competitive markets. "A corporation is said to have a competitive advantage when introducing a value-building policy that is not applied concurrently by any actual or future competitor" (Barney 1991). Even for a territory, the same principle applies. Successfully applied policies would lead a country to superior performance by making it more efficient. Table 1 lists many factors which could affect the GCC nations ' competitive advantage. Accordingly, tax rates are the least problem for the market drivers in G.C. nations, according to that analysis based on PwC's 2008-2009 research. Thus, in GCC countries ' comparison with other variables, the competitive advantage of tax rates and tax regulations is obvious.

Table 1: Comparative Competitive Advantage of GCC Countries from a Business Perspective

Hindrance Factors In Doing Business	Rank				
	KSA	Bahrain	Kuwait	Oman	Qatar
Inadequately educated workforce	1	3	4	2	4
Inflation	2	5	6	3	2
Restrictive labor regulations	3	1	2	1	1
Inefficient government bureaucracy	4	2	1	5	5
Access to financing	5	9	5	6	6
Inadequate supply of infrastructure	6	4	7	4	3
Corruption	7	7	3	8	8
Crime and theft	8	10	13	13	14
Foreign currency regulations	9	8	12	9	7
Poor public health	10	14	11	14	9
Policy instability	11	6	8	7	10
Tax rates	12	13	14	11	12
Tax regulations	13	12	10	10	13
Government instability	-----	11	9	12	11

Source: Processed from Global Competitiveness Report 2008-2009 (PwC & IFC)

According to Klaus Schwab from the World Economic Forum and Michael E. Porter of the Harvard University, the GCC countries regard taxes as one of their least problematical variables (klaus Schwab, 2008). In the case of the UAE, poverty, rigid labour laws, poorly trained work force, etc., are the most troublesome causes. Tax rates only become an issue for them with poor government safety and fraud. For Saudi Arabia, which is the largest of the GCC countries, the first three major obstacles in doing business consist of inadequate educated workforce, inflation and restrictive labor regulation. Tax rates are not a major problem for them, either. Bahrain has serious problems with the laws on the competitive labor market, inefficient government administration and the absence of a sufficiently educated population, according to this study. Throughout their view, tax policy seems to be absolutely non-problematic. For the Sultanate of Oman, the biggest obstacles to doing business are stringent job laws, insufficient trained workers and inflation. Tax rates are ignored and appear to be no problem whatsoever. The major obstacles in doing business for Qatar, like many Gulf nations, are stringent labour standards, corruption and insufficient service availability. They are not bothered by tax rates (Klaus Schwab, 2008). However, the UAE corporations enjoy the least demanding tax system worldwide, according to a new World Bank survey, the IFC (International Financial Corporation) and PricewaterhouseCoopers (PwC). In terms of tax revenues, Qatar and Saudi Arabia rate second and third, while Bahrain, Oman and Ku are ranked second and third in terms of administrative burdens.

The report says that companies operating in the UAE, which placed 6th in global taxes last year, pay a 14.9 percent average overall tax rate, make 4 payments quarterly and invest just 4 hours on administrative preparedness for payments. The UAE is one of the world's only nations without a personal income tax scheme. In April this year's proposal to pay individuals and companies without income tax or a new service fee for any fiscal shortfälles was proclaimed by Shaikh Hamdan Bin Rashid Al Maktoum, the UAE Minister of Finance and Dubai Supreme Governor.

In its 2013 Paying Tax Survey, 185 countries have analyzed taxation regimes–of which 13 come from the Middle East–and found that the average Middle East total tax rate is 23.6%, up from the world average of 44.7%. A medium-sized company makes on average 17.6 expenditures (for an organisation's expenditure and collection of different types of income and profit) for 158 hours (including duty on labor, statutory duties taxation and sales tax) and are well below the global average and the lowest in all regions (planning period for recording and receiving three primary taxes). This is much smaller than the norm. Labour taxation and charitable contributions are the most important part of the three indicators in the Middle East that are very distinct from the world-wide average. From the 6th to 7th year in 2012, both the UAE and Saudi Arabia expanded and Qatar stood second for the fourth consecutive year respectively in 2013.

PwC Middle East Tax Chief Dean Kern acknowledged that the Middle East market is extremely important for payment tax requirements. "With higher demands and the need for more democratic rights for people, governments in Near East must face the challenge of increasing tax revenues in the future by implementing new taxation, expanding the base, and raising tax levels," says Kern in a statement. "The comparatively low level of tax imposed and reliance on other forms of public income is due to this reason (The World Bank, 2012).

"Electronic reporting and payment decreases taxes paperwork and confusion and can help increase tax compliance and reduce tax costs" (Nadine Ghannam 2012), added Augusto López Claros, director of the World Bank Group, Global Indicators and Analysis (GIB). Low taxation and the abortion are common characteristics in most of the Middle East. First, in 2002 5% of the Arab oil produced and in 2002 17% of the non-oil produced were taxed, with Germany (39%), Italy (41%), and Britain (37%) being very low compared to Germany (39%). Quite possibly because many of them are religious communities where the government has no revenue sources of income. Oil is a classical example, but in some poor Arab countries many countries like Egypt also receive a large rent for foreign aid and the Suez Canal. In total, just under 20 percent of the revenue of Arab governments comes from taxation.

High taxes can, as a rule, serve as a stimulus for democracy and a government accountable. Conversely, low taxes may contribute to a democratic governance that is less accountable. The taxes collected also affect transparency intimidation. Generally, GCC governments rely heavily not on more politically sensitive direct impôts but on indirect taxes–merchandise, utility & customs duties. In 2006, for example, Arab governments created less than 6% direct taxes. "This kind of tax structure minimizes the chance for citizens to protest their government, a UN report said. Direct taxes–particularly income taxes–are regarded as tax categories that give citizens the greatest proof of their commitment to public finances. The plurality of Arab countries originate from indirect export and customs taxes disguised in the market. The direct links between tax payment and the funding of public stock markets are usually secret and this form of tax reduces demands on public accountability (UNDP.RBAS, 2005). In order to ensure the approval of the people, the World Bank observed last year that raising taxes 1) needs an effective political initiative, 2) that a professional administration is built effectively and 3) a reasonable political interest is required for fair and equal citizens ' care.

Distribution of Revenues

Bahrain levied every international employee a corporate tax after 2008. It was a well-planted strategy for increasing the costs of foreign workers employed and indirectly supporting Bahraini's use in local companies. This was used to train local people in employment, create more jobs and hence add salaries for local workers. The money generated by the regulatory authority for the labor market. In 2010, the project, to provide low income jobs for 20,000 local Bahraini, received a massive BD 90 million ($238 million), respectively. The other GCC countries are closely monitoring this experiment and will implement it in their own nations. Taking Saudi Arabia for example, government resources and capacity building in the public sector are under huge pressure due to an increase in the population. Just 16 to 17 percent of the local Saudi population were working in the private sector, according to labor market estimates in 2008. In this way, the expenses of educating the local young people to the required standard can also–like the Bahraini effort –be covered by corporations. According to Bahraini officials, it takes about five years for this foreign labor tax scheme to be fully implemented.

Factors Behind the GCC Taxation Policy

The following factors forced the GCC states to implement the taxation policy: • growing use of domestic public welfare GCC countries ' energy export revenues • danger of potential domestic energy export amounts, hence decreasing oil production rates • decline in trade tax revenues due to the increase in numbers of bilateral and/or national Free Trade agreements • partially since the late 1990's.

Bahrain's New VAT Regime

The third State to levy a Value Added Tax (VAT) on the six Gulf Cooperation Council (GCC) Member States was Bahrain, and the other Gulf States are Bahrain in January 2019. This was the outcome of the GCC countries ' 2016 Joint VAT Treaty. The Convention laid the foundations for a formal VAT union in the GCC Member States. In turn, Bahrain agreed with another government to include in its National VAT legislation the key principles laid down in the Agreement. The VAT policy in Bahrain was a turning point of benefits and disadvantages.

Advantages of VAT in Bahrain

1. Reduces Evasion Rate and Cost

The general method of sales tax relies on a proportion of the product or service's final sale. When a business or entity refuses axes, the government in Bahrain has the greatest impact. Except on oil and gas, Bahrain does not see a heavy tax. Avoiding tax at any point does not fully avoid the tax if a VAT scheme is enforced. The government helps not only to have higher income than normal sales taxes, but gives companies an incentive to evade taxes.

2. Transparency and Neutrality

A VAT that requires the vendor to increase transparency in the amount of VAT already paid in receipt sales. It aims to monitor how much VAT was charged by tax authorities and whether a corporation tries to stop taxation. Since it acts as a corporate tax, VAT avoidance is much easier.

Transparency is provided by a VAT which requires the seller, when the receipt is sold, to submit the sum of VAT already accrued. It enables the Bahrain tax authority to check whether the correct amount of VAT is being charged and if a company is planning to avoid tax. As a corporation tax, it is illegal in compliance with VAT to limit corporation tax payments by advanced accounting methods. As costs are equal at all levels, it is extremely important to lobby against the agreed rate.

3. Benefits Small Businesses

Bahrain also opened up another significant advantage by introducing VAT. Bahrain is dotted with new and emerging companies and VAT is particularly helpful to those small to medium-sized businesses as it cloaks them in a much larger and more established external appearance. If your company's VAT figure crosses the VAT transactions cap, it is not easy to say. In the minds of other firms this can give small enterprises a certain value and contribute to more sales.

4. Exemptions and Zero Rate VAT

The authority has very well planned the VAT in Bahrain and defined the few business classes excluded from VAT:

• Financial services

• Provision of peer-based services

• supply of property

• Imported personal belongings

• imports and cadeals carried in personal baggage, and with foreign people arriving in the Republic for the first time

• Imports

• VAT in Bahrain was extremely well-created, and it identified few business categories which are exempt from VAT.

Bahrain firms can receive any value added tax they incur on expenses at zero levels. The foregoing are the types of nil in Bahrain:

• Local transport

• Import of products, commodities or other assets from applying the GCC countries and/or the non-application of the GCC countries

• Gold, silver and platinum for production

• Last demand for gold and silver or platinums, materials for the customs suspension system regions

• Re-export of temporary goods

• Cross-border movement of goods, goods and travelers from the GCC to / from the GCC.

Disadvantages of VAT in Bahrain

1. The Political Climate of Bahrain

Implementing VAT might be a positive step forward, but any income rise in Bahrain would certainly be balanced by high government expenditure and will significantly drag down changes in fiscal position in Bahrain with the implementation of VAT, in an attempt to limit social instability.

2. Increased Procedures in Accounting

Increasing the financial activities of a company has to conduct is the main problem with the VAT scheme. Developing countries, such as Bahrain, are unable to have sufficient people with a broad understanding of accounting principles to help companies track their taxes. Small companies may not be able to spend time and money to test where VAT comes from.

3. Uncertain Outcome

VAT, itself, has no power to increase or reduce government tax income. In a metaphorical sense, one of the two consequences can be the introduction of VAT. It could have any of these consequences based on how it is applied. Both the income tax burden and the amount of citizens ' expenditure in Bahrain can be significantly increased. When VAT is created, it can have a potential impact in Bahrain without the abolition of income tax.

Underpinning Theory

This study was based on an economic development theory of dynamic ability that claims that essential and intangible capital lead to better economic development. Therefore, the structures under analysis are illustrated in the graphical map below.

The Conceptual Framework

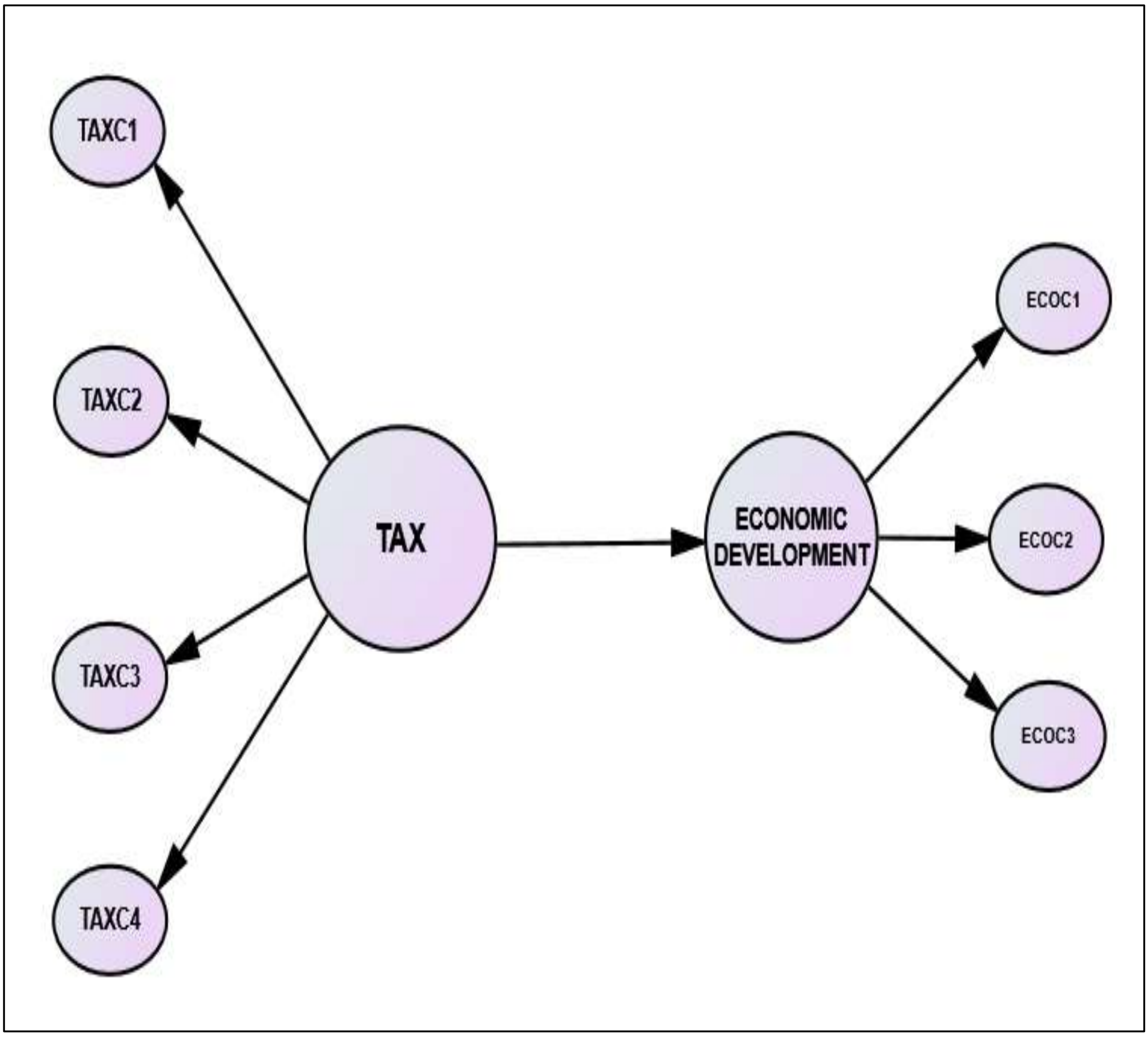


Figure 1: Research Framework

II. Research Methodology

In five different areas of Bahrain a self-administered survey was conducted, and a maximum of 384 available questionnaires were issued. Based on gender, male accounted for 89.76%, while 10.24% of the sample population was women. Sale tax collection efficiency instrument was adapted from the work of Wells and Tigert (1971), Mitchell (1983), and Yu (2011). Whereas, economic development instrument was adapted and customized from the work of Santos and Brito (2012). Answers are rendered with a 5-point interval scale, 1 being very disagreeable and 5 strongly agreeing with the assertion of things. SEM is a second generation technique of multivariate analysis (Hoque et al., 2017) used for the researchers of this study using IBM-SPSS-AMOS 25.00 software for the analysis and the testing of hypothesis. In SEM, after validating the measurement model, the researchers execute the path model procedure.

III. Results

Measurement Model

At the beginning of the validity, reliability and unidimensionality study, the validation of the measurement model is required (Hoque et al., 2017b; Hoque et al., 2017c; Yusof et al., 2017; Awang et al. 2015). Hoque et al. (2017a); Hair et al. (2014); mentioned in their studies the unidimensional charging of all items as positive as 0.6. Whereas, if the measurement model meets the Incremental fit, Absolute fit, and Parsimonious fit criterions then the Construct validity is achieved. Furthermore, the Discriminant validity is achieved where no correlation exists between all constructs (Awang 2015; Hair et al. 2014; Fornell and Larcker 1981). On the other hand, Awang et al. (2017a); Awang et al. (2017b); Awang (2015); Hair et al. (2014); Fornell and Larcker (1981) stated that Construct reliability is achieved through the values of CR and AVE and for that the minimum value requirement is 0.6 and 0.5 correspondingly.

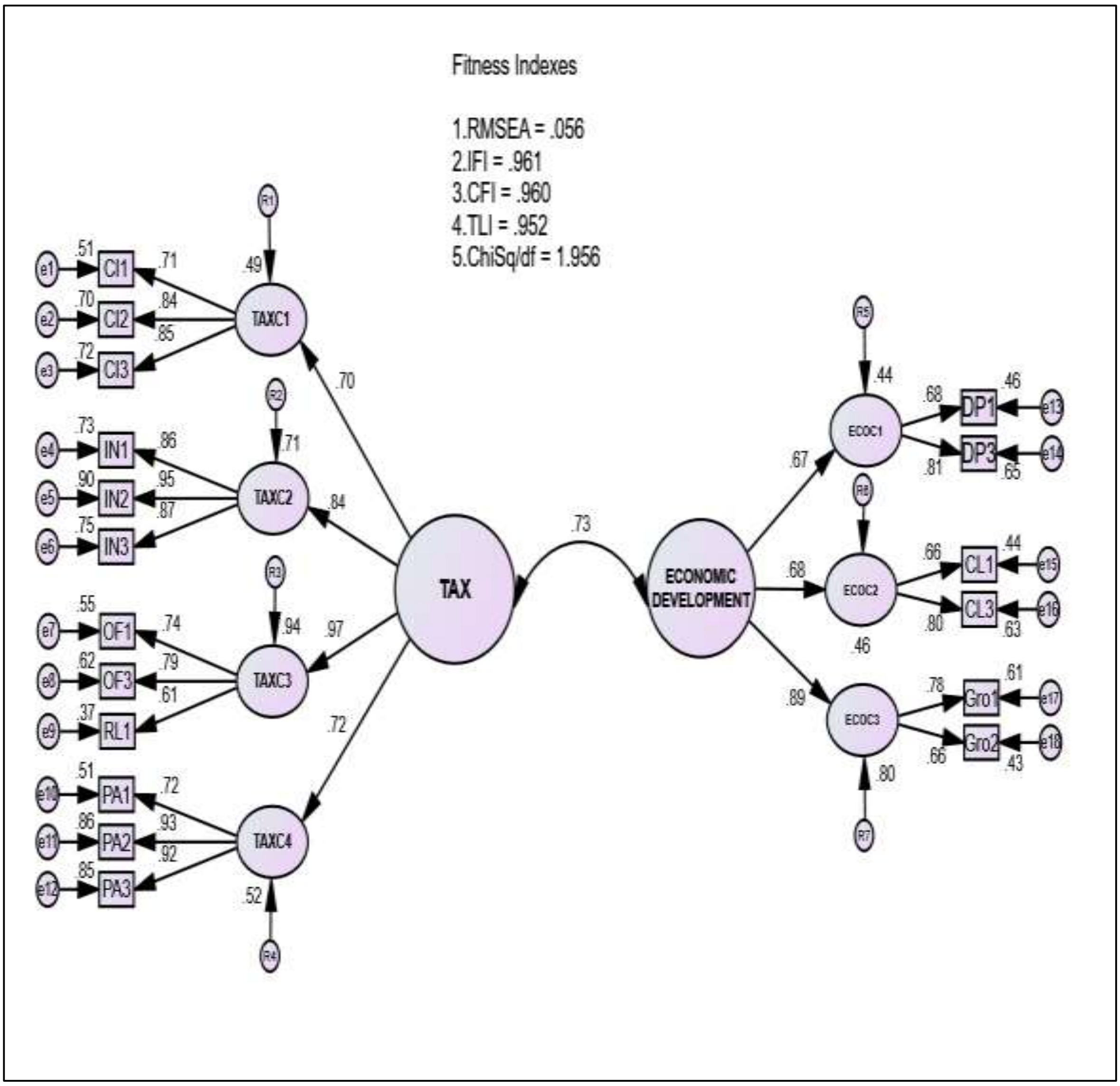


Figure II: Pooled CFA Results and All Fitness Indexes

In this analysis the inner reliability of the items is achieved because the minimum value of Cronbach Alpha is 0.7 or above (Fornell and Larcker, 1981; Nunnally, 1978). As, P-Value=.000; RMSEA=.056; IFI=.961; CFI=.960; TLI=.962; ChiSq/df=1.956 (shown in Figure II) thus the measurement model of the sustainability, competitiveness, fairness of strategic planning and development economic planning efficiency latent constructs have met the requirement as well as signifies a satisfactory fit to the data and result of all indexes was good. The construct accuracy of this thesis has therefore been reached (Hoque and Awang, 2016a; Awang et al., 2017a; Awang et al., 2017b; Awang, 2015).

Table I: Factor Loading Value, CR and AVE

Construct & Dimensions	**Dimensions & Items**	**Item Factor Loading**	**Composite Reliability(CR) (above 0.6)**	**Average Variance Extracted (AVE) (above 0.5)**
Tax Collection Efficiency	E-Activities	.70	.886	.664
	E-Interests	.84		
	E-Opinions	.97		
	E-Values	.72		
TAXC1	CI1	.85	.844	.644
	CI2	.71		
	CI3	.84		
TAXC2	IN1	.86	.923	.800
	IN2	.95		
	IN3	.87		
TAXC3	OF1	.79	.759	.515
	OF3	.61		
	RL1	.74		
TAXC4	PA1	.93	.896	.743

	PA2	.72		
	PA3	.92		
ECONOMIC DEVELOPMENT	ECOC1	.67	.795	.568
	ECOC2	.68		
	ECOC3	.89		
ECOC1	DP1	.81	.716	.559
	DP3	.68		
ECOC2	CL1	.80	.698	.538
	CL3	.66		
ECOC3	GRO1	.66	.684	.522
	GRO2	.78		

Unidimensionality; Convergent Validity, Internal and Construct Reliability have achieved variable charging for every component of two constructs comprising industry, reality and sustainability together with CR and AVE for every framework as shown in Table I showing all latent constructs. For the respective constructs, the diagonal value in the Discriminant Validity Index Table II is the value of square-root of AVE, whereas other values represent the correlation between constructs. Since the square-root of AVE for the respective structures is greater than their rows and columns in relation values, Discrimination in constructs validity for the model is thus achieved (Hoque et al., 2018a, Hoque et al., 2018b; Awang *et al.*, 2017a; Hoque *et al.*, 2017c, Hoque *et al.*, 2017d; Yusof *et al.*, 2017; Hoque and Awang, 2016a; Hoque and Awang, 2016b; Awang *et al.*, 2015; Fornell and Larcker, 1981).

Table II: Discriminant Validity Index Summary

Construct	Tax Collection Efficiency	Economic Development
Tax Collection Efficiency	0.814	
Economic Development	0.726	0.753

The Structural Model

The theory H1 is endorsed, as shown in Figure III. In H1, the direct effect of tax collection efficiency on economic development in Bahrain is significantly positive (β=0.961, P=.05). The structural model explains 52.7% variance in economic development.

Table III: Squared Multiple Correlations (R^2)

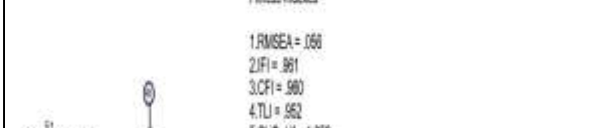
Variable	Estimate (R^2)
Economic development	**0.527**

Table III above indicates that 52.7% of its variation is explained by the predictor variables (i.e. tax collection efficiency). In other statements, approximately 47.3 percent of the variance for economic development is the error variance.

Table IV: Standardized Regression Weights

Variable	ath	Variable	Estimate
Economic Development		Tax Collection Efficiency	**0.726**

In Table IV of Figure III it has been shown that tax collection efficiency effect on economic development and 27.4 percent have no effect.



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The unstandardized weight of regression (that is, Figure IV) shows that the beta coefficient calculation that measures the effects of tax collection efficiency on economic development in Bahrain.

TABLE V: Regression Weight for Path Estimate

			Estimate	S.E.	C.R.	P	Result
Economic Development	←	Tax Collection Efficiency	.961	0.146	6.559	0.001	Significant

This study's hypotheses ware defined as: H1: The impact of tax collection efficiency on economic development in Bahrain is positive and significant.

IV. Conclusion

Economic reform is not just about fostering growth and stability in Arab countries. The economic systems are closely related to the political systems and often are closely related to the ruling regime. It is apparent that it is not a recent idea to introduce different forms of taxation in the GCC countries. Nevertheless, this question has played a role in transforming state, regional and international environments for more than 20 years. GCC countries face rising problems with their growing populations and currencies to support their public welfare programs and employment on a scale comparable to their populations. As the Kuwaiti parliamentarian quoted: "Kuwaït exports oil in lieu of salaries, but this cannot be done in the future.' Taxation can be used in the area of the GCC for several reasons and is already doing them. A newer taxation regime, capable of responding to fluctuating oil prices as well as increasing government revenue in the face of rising domestic demand can be a definite solution to this crucial role of taxation in a changing political-economical balance. Nonetheless, this paper examines the effect on tax collection efficiency effect on economic development in Bahrain. The result of this report is that the impact on economic planning efficiency in Bahrain from tax collection efficiency is promising and very important. It can therefore be established that the sustainability, competiveness and fairness which can play major role on the economic development in Bahrain. However, future research can be done on the fact of what strategy could provide more support and what could help to mediate or regulate the mechanism of Application of sales tax and economic development in Bahrain.

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