

The Emergence of Tax Regulations in Kuwait: The 1899-1950s Episteme

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Abstract

The main focus of this study is on the interrelation between the process of setting government tax and accounting regulations in Kuwait during the period 1899-1950S and the environment within which these regulations operate. This concern is pursued from a historical and contextual perspectives, focusing on two major components, firstly on two tax laws which addressed accounting issues, secondly on the environmental (social, economic, and political) developments of the period 1899-1950s.

The accounting literature on the process of setting accounting standards will not be used to guide the structure and the procedural steps of the present study. This is maintained on the ground that studies in the accounting literature are based on environments and on regulatory systems different from that in Kuwait. This is based on the Foucauldian approach utilized in this study. By pursuing the task outlined above the following conclusions are obtained. Firstly, the understanding of the accounting regulatory process requires the identification and delineation of the wider social context regardless of the type of the regulatory system and regardless of its economic and political system. Secondly, The emergence of accounting regulations is interrelated with unlimited associated environmental (social, economic, and political) developments.

Introduction

During the past decade or so, accounting researchers have begun to look at accounting phenomena from a perspective that situates accounting within its organizational, social, economic and political context. by so doing, researchers has been able to explore and reveal the interactive relationships between accounting and the broader social context within which it operates. Among the various topics pursued in this area of accounting research is 'accounting regulation', more precisely, the process of setting accounting standards.

The purpose of this study is to draw a picture that reveals the relationship between government accounting regulation and the environmental events. This task

requires the employment of large portions of information on accounting regulation and on the environment. The aim is, therefore, to identify the collective environmental conditions (social, economic, and political) that were associated with* the emergence of accounting regulations. The present study is concerned with the period 1899-1950s.

This study is divided into five sections (including this introductory section and the concluding one). Following this introduction, the second section covers the period 1899 to the end of the 1940s. This epoch has numerous distinctive features. Among those which concern this study are: the primitive state of Kuwaiti society, the absence of a defined system of government, the absence of all sorts of government legislation and the setting up of the protectorate agreement between the Ruler of Kuwait and the British Government. Accordingly, the emphasis in the second section is placed on the ramifications of these and other environmental conditions with respect to the main issue, namely, the absence of accounting and business legislation.

The following two sections are concerned with the 1950s period. Section three summarizes the government tax regulations of this period which include: Income Tax Law no.3/1951, and Income Tax Law no.3/1955. Section four focuses on the conditions of possibility for the emergence of the above tax Acts. It identifies the various environmental (political, economic, and social) circumstances, both on the national and international levels that were associated with the issuance of these regulations. Finally, section five seeks to provide a general picture of the relationship between accounting regulation and the environment by highlighting the main issues of the two periods addressed in the study.

Taking into consideration the dynamic and complex nature of the process of setting government accounting regulations, and the historical context upon which this study focuses, the methodological approach required to pursue the objectives of the study must be of certain qualities. Firstly, the methodological approach must be adaptable to the historical orientation of the present study. Secondly, it must possess the qualities that enable the capture of the dynamic and complex relations and interactions in the process of setting government accounting regulations in Kuwait.

This study is based on the philosophy of Michel Foucault, which reflected in his methods of historical analysis, namely archaeology and genealogy. Foucault used archaeology in his earlier writings and genealogy in his later works. Archaeology is based on the analysis of discourse (statement/event). Genealogy is based on the analysis of discourse as form of power and their association with forms of knowledge.

Three analytical tools are drawn from the Foucauldian analyses and are used in the present study. The first is the periodization of history. The historical period under study (1899-1950s) is divided, according to decisive historical events, into two periods: 1899-1950 and 1950s. Secondly, the analysis of discourse where a vast amount of data, documents, and history on these periods are analysed. Thirdly, the analysis of power relations in which the interaction between different parties involved in the process of setting accounting regulations in Kuwait is the prime concern. This analytical orientation of the study defines the empirical part of the study.

The Rise of A system of Government: The Embryonic Stage 1899-1950

This historical period is characterized by crucial environmental features which made it unique period. It is a period which, in effect, set in place the societal structure of the Kuwaiti society. Among many others one feature of this period is considered as the most important in the context of the discussion here. It is the setting of the political, economic, and social structure of the Kuwaiti society. This structure remained as the hallmark of Kuwait throughout the subsequent historical periods, despite the radical changes that were introduced during the following decades.

During the eighteenth and nineteenth centuries, Kuwaiti society was characterized by its nomadic and tribal structure. Both of these features reflect the primitive state of the society. As in the case of most of the present states of the region at that time, there was no identified system of government except for the position of the Ruler and the various senior members (elders) of the big families. The decision making process was controlled by the Ruler, who was assisted by the senior members of the community. This was applicable to all issues, regardless of their nature (internal or external) (Ismael, 1982). After the introduction of the British into Kuwait, by Sheikh Mubarak, the nomadic and tribal system of governing was altered from one perspective, namely, the foreign affairs of the Kuwaiti society. This was set up in the 1899 Protectorate Agreement between the Ruler of Kuwait and the British Government whereby the Rulers of Kuwait were bound to refer to the British Government on issues in which foreign elements or parties were involved (Baz, 1981). In this connection, regardless of the disadvantages and advantages of the above changes, they marked the systematization of the societal structure in Kuwait. This structure emerged in association with the responsibilities allocated to the two sides involved in the agreement (i.e. the Ruler of Kuwait and the British Government). The British Agency in Kuwait became in control of Kuwait's foreign relations and policies. The Ruler, on the other hand, became in charge of the internal affairs of his state (Al-Rashaid, n.d.; Ismael 1982). In addition, it is important to indicate that the introduction of these changes is mainly attributed to the characteristics of the Ruler, Sheikh Mubarak. His vigour and toughness enabled him

to undertake these and many other similar actions. However, the start of the efforts in search of oil in Kuwait, the death of Sheikh Mubarak in 1914, and the short reign of the two Rulers who succeeded Sheikh Mubarak (his sons) were among the circumstances that were associated with further changes.

The above conditions were associated with the emergence of the role of the merchant class. Before the selection of the tenth Ruler of Kuwait, Sheikh Ahmed Al-Jabir, they demanded to have a role in government in order to assist the Ruler in running the affairs of the state. In 1921, the Consultative Council was established and in 1938 the Legislative Council was elected. Both councils failed to achieve their objectives. Nevertheless, the two bodies sow the seeds for subsequent radical changes of the 1950s and 1960s, despite the fact that such changes emerged in association with unique environmental circumstances of their time.

More importantly, however, with regard to the main concern of this study, the period 1899-1950 during which the structural framework of the Kuwaiti society was crystallized was an unsettled stage in the history of Kuwait. In fact, multiple national and international events occurred during this period which gave it special characteristics. But at the same time, the same events hampered or delayed the developments that occurred in subsequent periods. With reference to the nature of these events, they were unpredictable and uncontrollable. Among these events were: the circumstances through which the British intervened in Kuwait; the policies of Sheikh Mubarak (1); the succession of four Rulers; the First World War; the world recession of the late 1920s; the domestic political turmoil; the prolonged negotiations over the oil concession in Kuwait; and the Second World War. Some of these events were interrelated, while most of them were associated with national and international conditions of political and economic nature. In other words, the occurrence of each of these events was associated with a network of conditions of possibility, the untangle of which is beyond the scope of the present study. More importantly, however, these events were part of the conditions of possibility for the absence of environmental development in Kuwait during the period 1899-1950, and therefore, for the lack of business and accounting regulations.

Finally, it is necessary to indicate that the environmental development in Kuwait was associated with the changes introduced during the period after 1950 (the period of modernization in Kuwait). Prior to 1950 societal activities, such as trading, were conducted on primitive standards. No foreign operations were carried out during that time, except the oil companies, and the British bank which was established in 1942. Therefore, regulations were mainly customary and religious, and the modernization of the legal system was undertaken in the 1950s (Abdul-Rasoul, 1970).

The conclusion of this section is that during the first half of the twentieth century, Kuwaiti society was in an embryonic stage. The unknown existence of oil in Kuwait and the continuation of primitive means of economic operations, on the one hand, and the unprecedented political events on the international level, on the other, were among the major environmental circumstances which were associated with the absence of accounting regulations.

Income Tax Laws of The 1950s

It is necessary to start by mentioning that Income Tax Laws were the first organized and written government legislation of the oil era (which started in 1946) in Kuwait. In addition, the imposition of income tax regulations preceded the introduction of all forms of modernization in Kuwait. It preceded the organization of business and trading activities, and the organization of the legal system from all aspects. These steps towards modernization should have been taken long before the introduction of the tax regulations. This initial observation reflects, rather implicitly, the abnormality of the environmental conditions which were associated with the emergence of the tax laws. Before addressing these environmental conditions, it is important to review the content of the Tax Acts no.3/1951 and no.3/1955.

As summarized in Table 1, the first article of Law no.3/1951 imposed income tax on all body corporate operating in Kuwait in the production of (para. A) or trading in (para. B) crude oil or any carbohydrons. This article imposed a 50% income tax from which all other taxes, royalties, rents, custom tariffs, dues, and the like payable to the Ruler of Kuwait should be deducted. The second article defined a selection of terms used in the Act (e.g. tax-payer, Tax Director, tax employees, Kuwait, taxes, income). The third article identified the deductibles from income. They include: cost of goods sold or service rendered; expenses accrued against or paid by the tax-payer; depreciation, exhaustion and obsolescence for which percentages of deduction were provided; and uncompensated losses sustained in the taxable period in connection with the operations carried out in Kuwait. Article four dealt with the depreciation of fixed assets owned by the oil companies before the enactment of this Act (2). Article five identified the taxable period, while the sixth article dealt with the method of calculating income (i.e. the cash basis and the accrual basis). Articles seven and eight are concerned with the declaration of income tax to the Director of Tax. Article eight stated that if a public or chartered accountant who is a member of an internationally recognized firm of accountants approved for the taxable period by the Director of Tax certifies that the records are correct and fairly reflect the tax-payer's income computed as provided by this Act and that the declaration is in conformity with such records, the declaration shall, in the absence of proof to the contrary established by the Tax Director, be accepted as correct, and that the income tax shown by such declaration shall be taken to be finally determined (3). Finally, articles nine to thirteen dealt with administrative matters (e.g. Tax

Director duties; the confidentiality of the tax declaration; dealing with cases of falsified tax declarations; and the procedures to be followed to solve legal disputes).

Income Tax Law no.3/1951 remained in effect until the end of 1954. On October 5th, 1955, the Ruler, Sheikh Abdullah Al-Salem, substituted it by Income Tax Law no.3/1955. Although, the two laws are literally identical to a considerable extent, they demonstrate some differences which indicate significant environmental changes that occurred during the period 1951-1955. The two Tax Acts, no.3/1951 and no.3/1955, differed in two aspects. Firstly, income tax law no.3/1951 was specifically designed and imposed on oil companies that were operating in the production and/or trading of crude oil or any hydrocarbon properties in Kuwait (article 1 law 3/1951). However, in the act no.3/1955, income tax was imposed, for each taxable period ending after 31st of December 1954, on every body corporate, wheresoever incorporated, carrying on trade or business in Kuwait (art.1 law 3/1955). Secondly, law no.3/1951 required an income tax at an annual rate of 50%, where other taxes, fees, duties payable or paid to the Ruler of Kuwait are to be deducted from the calculated income tax figure. In the case of law no.3/1955, eleven income brackets were assigned with different tax rates (Table 2). In addition, it is important to indicate at this juncture that despite the fact that Income Tax Law no.3/1955 canceled the previous tax act (no.3/1951), the position of the oil companies remained the same. As illustrated in Table 2, this is because the maximum annual income tax rate is 50% for income bracket Rs.5000000 (375000 Pound Sterling) or above, which (according to Table 3) is well below the level of income usually attained by the oil companies. This, on the other hand, indicates that the change in legislation targeted the position of foreign companies operating in industries other than the oil. Accordingly, the questions that pose themselves here are: what were the conditions of possibility for the emergence of Income Tax Law no.3/1951 when it did? And what were the conditions of possibility for the introduction of the changes listed above in the form of Income Tax Law no.3/1955? These two questions are addressed in the following.

Before exploring the environmental circumstances associated with the emergence of Income Tax Act no. 3/1951 and no. 3/1955, it is important to indicate that the analyses that follows are based on two assumptions. First, the imposition of Income Tax Act no. 3/1951 and no. 3/1955 (except for the differences highlighted above) was influenced by external parties, namely, the oil companies (the Anglo-Iranian (later BP) and Gulf Oil). Secondly, the introduction of the changes to the Act no. 3/1951 in the form of Act no. 3/1955 was mainly influenced by domestic environmental circumstances. Accordingly, the discussion that follows first validates this assumption by exploring, briefly, a number of formal and technical factors

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drawn from the content of the legislation. This is followed by the assessment of the environmental conditions that synchronized the emergence of law no.3/1951 (4).

By way of a final introductory comment, it is important to note that Kuwait Income Tax laws were based on the British Tax law, where a unified tax on companies income (including capital gains) was imposed (Farrar,1985). Both tax acts (no.3/1951 and no.3/1955) were translated to Arabic from an original English version. As we will see this created some serious problems in the later stages of the implementation of these acts. The deficiencies in the quality of their wording and in the precision of the technical terms they contained along with the absence of a supporting explanatory memorandum led to considerable confusion. This is because income tax law no.3/1951 was formulated by the oil companies in order to attain specific ends (i.e. foreign tax credit). They were, therefore, aware of its content and purpose beforehand. However, in the case of tax law no.3/1955, the Kuwaiti government (the Ruler) was the prime initiator. Moreover, it was imposed on any body corporate that achieved an annual income above Rs. 70,000 (ú 5250 P.S.) (article 2). But, due to the lack of clarity, the Act did not fully specify the characteristics of the body corporate liable to tax (e.g. foreign companies, local companies, or all companies), and therefore led to considerable confusion.

Owing to the deficiencies in the form and content of the tax acts, especially law no.3/1955, subsequent regulations were issued. These regulations contained clarification and interpretation to some terms mentioned in the acts, such as the terms "body corporate" and "agent". The Director of the Income Tax Department issued two Notices, one in September, 1956 and the other in December 1958. In fact, the Ruler promulgated law no.2/1957 that covered the same issues. Without addressing the details, these regulations identified the tax-payer (body corporate and agent) and introduced more restrictions. Nevertheless, tax law no.3/1955, which is still in effect, contains several shortcomings.

Finally, the accounting technicalities of the two acts pin-point the foreign intervention in their formulation. As shown in Table 1 (summary of Income Tax law no.3/1951), the level of detailed accounting practices and the sophisticated terminology utilized in the acts far exceeded the status of the practice of the accounting and the auditing profession in Kuwait during that time. The acts adopted a number of accounting terms which were unknown in the prevailing business environment in Kuwait, especially during that period (i.e. the development of the private sector was in its embryonic stage). The first article of Law no.3/1951 and no.3/1955 illustrated the method of determining income tax. Article three of both laws specified the deductions from income (i.e. cost of goods sold or services rendered; expenses accrued against or paid by the tax-payer; exhaustion, depreciation, and obsolescence; uncompensated losses sustained in the taxable

period, and; an amount for the amortization of direct expenses incurred in some prospecting operations).

While article four of both Acts indicated the evaluation of properties (fixed assets), for which a table, that illustrates the type of property and the corresponding percentage, was provided (5). Finally, article six of both Acts determines the methods of computing income (i.e. accrual basis and cash basis). This accounting language reflected a level of maturity in the practice of the accounting profession which was not apparent at that time in Kuwait. On the other hand, the time between the issuance of these two laws and the first subsequent accounting regulation, which contained accounting practices on a similar level of sophistication (M.O.no.50/1984), is about one quarter of a century. This raises a question about the absence of similar regulations during that gap of time (1950s, 1960s, and 1970s). Moreover, regulations promulgated during the sixties, which contained issues related to the practice of the accounting and the auditing profession, did not address any of the technical accounting notions of income tax laws no.3/1951 and no.3/1955 (N.B. subsequent historical periods are discussed in the following section).

The above discussion raised a number of issues related to the content of the tax acts, which demonstrated the level of intervention by the oil companies in the formulation of the legislation. They, therefore, constitute an integral part in the understanding of the conditions of possibility for the emergence of the tax Acts.

The Environmental Emergence of Kuwait Income Tax Law No.3/1951

In connection with the above, the understanding of the emergence of Income Tax Law no.3/1951 requires the exploration of a series of events that occurred before, during and after its imposition. These related events played a coherent role in bringing about the circumstantial environmental conditions (conditions of possibility) within which the tax Act emerged. In line with this allusion, the environmental emergence of Income Tax Law no.3/1951 comprised two interrelated and significant levels of interaction, international and national (depicted in Figure 1 as I and II, respectively) among the different parties involved. The international level encompasses the discourse on oil in the West (A), the regional political discourse (B), while the national level involves the domestic economic and political discourse (C). The interconnection between A, B, and C involved interaction between three major parties, namely, the new Ruler of Kuwait, Sheikh Abdullah Al-Salem; the Western oil companies (AIOC and Gulf Oil), and; the British political Agency in Kuwait (1 2 and 3). The status of each of these parties was determined by a distinctive set of interrelated conditions. The position of the Western oil companies, with respect to Kuwait Income Tax Law no.3/1951, was associated with: their state in terms of the restrictions of their home countries (USA and UK) (A-1), their previous experiences in similar circumstances with the Government of Venezuela

and Saudi Arabia (A-2 and A-3, respectively); and, most importantly, their competitive financial position (A-4). The status of the British Political Agency, in term of the Tax Law no.3/1951, was associated with: the US-UK/Gulf states relations (B-1); and the general political mode in the Middle East (B-2). The position of the Ruler of Kuwait was associated with: his attitude towards democracy (C-1); his plans to introduce socio-economic reforms (C-2); the domestic political turmoil (revival of nationalism, which was in line and in harmony with the political situation in the Middle East (i.e. regional political discourse)) (C-3); and the concurrent oil negotiations in the Gulf region (in Iraq and Iran) (C-4). The overarching connection between the international and national levels of interaction, on the other hand, resides in two aspects: the new emerging political structure of international relations in the Middle East; and the serious overlapping between politics and oil in the Middle East. This, in particular, constituted an important element in the calculations of Western governments (mainly USA and UK) with regard to their future economic and political interest in the Middle East region. In order to understand the above dynamisms further exploration of the actual events is necessary.

As already indicated above and demonstrated in Figure 1, the discourse on oil in the West along with the political discourse involved several valid factors associated with the emergence of tax regulations in the Gulf states, including that promulgated in Kuwait (i.e. Income Tax Law no.3/1951). These factors included: the wave of restrictions on Western oil companies' domestic and foreign operations, especially during the post Second World War era, and therefore its impact on their financial position (A-1 and A-4); the US-UK/Gulf states relations (B-1), and the US/Saudi relations in particular, and the Saudi request (i.e. from King Ibn Saud to Aramco) for the change of royalty rate on crude oil production, or receive financial assistance from the US government in other forms (A-3) (Grayson,1982); the 50% profit share deal concluded between American oil companies and the Government of Venezuela (A-3), and; the volatile political status in the Middle East during the late forties (B-2). More importantly, however, as already mentioned, the extension of the relationship between these valid factors encompassed interaction between three constituents directly involved with the imposition of Income Tax Law no.3/1951, namely, the Western oil companies (BP and Gulf Oil), the British Political Agency in Kuwait, and the new Ruler, Sheikh Abdullah Al-Salem. In what follows the above issues are further delineated.

The US/Saudi negotiations over royalties on the production of crude oil was associated with the oil companies (emphasizing the American case) being under scrutiny from the US government in regard of tax privileges on both domestic and

foreign operations. Without going into the details of this issue, for decades the oil industry benefited from preferential tax advantages bestowed by the US Congress. These advantages included: percentage depletion; expensing intangible drilling costs; and foreign tax credit. In the context of the discussion here, the most important was the foreign tax credit (FTC). The credit of foreign income tax against U.S. income tax was a crucial factor. Tax legislation of the United States recognized that a United States company could not successfully operate abroad if its income from foreign countries was subjected both to U.S. taxes and to the taxes imposed by the countries in which it operates. Hence, if taxes were imposed by the foreign countries in which the U.S. companies operate, the U.S. laws relieve the U.S. companies from paying income taxes to the U.S. on the income from such foreign countries to the full extent that foreign income taxes were imposed on the same income. This, is because, for the US oil companies operating abroad, the FTC as credits were "dollar-for-dollar" offset (100%), while royalties were only worth 48 cents on the dollar (48%). Accordingly, the Saudi King dissatisfaction with his royalty rate (12%) and therefore his request for more funds put Aramco's officials, the representatives of Aramco's holding companies (Exxon, Mobil, Standard of California, and Texaco), and the US Senate Subcommittee on Multinational Corporations in an unprecedented position.

As far as the US government (State Department) was concerned, their position was in favour of considering the request positively. Such a stand was attributed to a number of factors. Firstly, the critical position of the whole Middle East in the contest between the two super-powers. Secondly, the hostile attitude of the Arab states against America as a result of the Israeli affairs. Thirdly, the special relationship between the Saudi King, Ibn Saud, and the United States government, despite the US/Israeli collaboration. Finally, the potential threat from the nationalist leaders, not only in Saudi Arabia but in the countries where there were Kings and Sheikhs (Blair, 1977).

As demonstrated in Figure 1, the interactive and complex nature of the above case led to the position where alternative solutions to the problem of meeting the Saudi King's request were unacceptable to at least one of the parties involved. Raising the royalty rate from 12% to 50% did not satisfy Aramco's holding companies, because it would have reduced Aramco's profit margin by two-fifths (A-4). Raising the posted price of crude oil would have not satisfied the King, because it was below the gains achieved by the government of Venezuela (50-50 profit share)(A-2). At the same time it would have resulted in a price hike far above the level acceptable by the world's consuming markets. Accordingly, the decisive solution that would satisfy all parties involved, as Blair (1977, P.198) put it

".....must be regarded as an act of pure genius...[where] the difference between 12 and 50 percent be made-up of taxes paid to

Saudi Arabia. Under the foreign tax credit, such payments could then be used in their entirety to offset taxes on other foreign income owed by the oil companies to the U.S. Treasury. Were the payments to be made in the form of royalties, they would be classified as business expenses worth, at a corporate tax rate of 50 percent only 50 cents on the dollar." (6) [emphasis added].

Following the agreement between the parties involved a team of tax lawyers drawn from the oil companies and the US Treasury was sent to Saudi Arabia to draw up a corporate income tax for a land virtually devoid of corporations.

On December 27th, 1950, King Ibn Saud of Saudi Arabia promulgated the Royal Decree no. 17/2/28/7634, whereby an income tax was imposed upon every company engaged in the production of petroleum or other hydrocarbons in the Kingdom of Saudi Arabia on the basis of 50-50 principle. This income tax was imposed in an amount which, when added to royalties, rental, and other exactions of the Saudi Arabian Government for the taxable year, will equal 50% of the company's gross income. This gross income was deductible by the company's cost of operation (excluding royalties, rental, or other exactions of the Saudi Arabian Government, and by any income taxes actually payable to any foreign country for such taxable year (7). This tax would have subjected Aramco to an impossible burden. However, as already indicated, FTC Aramco's over-all tax position as well as it's competitive position in the production and sale of petroleum was not adversely affected. Such changes were therefore introduced to other Middle Eastern countries, including those in the Gulf (8).

Among the Gulf states Qatar, Bahrain, and Kuwait where the British political agents had a dominant role in the formulation of the government's political and economic policies, similar legislation were issued. Income Tax law no.1/1954 issued by Her Majesty the Queen of England according to article 82 of 1953 Order of Qatar. This law was signed by Anthony Eden, the Foreign Minister of Her Majesty, and by B.A.B. Bruce, the Political Resident of Her Majesty in the Persian Gulf. Similarly, in the case of Bahrain, Income Tax Law no.8/1955 was issued according to article 82 of the Order of Bahrain, and promulgated by Her Majesty the Queen of England. These two laws are literally identical to that issued for Kuwait. Both started with a preface which contained the signature of the British Political Resident in the Persian Gulf and the Foreign Minister of Her Majesty's Government. The first article identifies the tax-payer (body corporate) and the taxable operations (i.e.the production and/or trading of crude oil or any hydrocarbon properties). Article two of both laws defined a similar selection of terms used in the acts. An income tax rate of 50% was required by both laws (article 3 law 1/1954, and art.1 law 8/1955).

Similar items were to be deducted in the calculation of income (art.3 and art.4, respectively). Both laws required similar methods for: the evaluation of properties (fixed assets) and therefore the corresponding value of exhaustion and deterioration, and: the calculation of income (cash or accrual basis). Also, both assigned similar taxable periods and similar administrative and legal rights and obligations of the taxpayer as well as the Director of the Income Tax Department (see Table 1 to compare with Kuwait Income Tax Law no.3/1951)(Shuquair,1969).

As illustrated in Figure 1, (national factors), the introduction of such a law in Kuwait was even more urgent, not only because of the importance of this issue for the oil companies, but also because of the decisive political changes that emerged in Kuwait during the early 1950s. More importantly, however, was the change in the leadership of the country after the natural death of the Ruler Sheikh Ahmed Al-Jabir. The new Ruler, Sheikh Abdullah Al-Salem, considered revising the 1934 oil agreement as an urgent priority in order to share in the oil revenue that was monopolized by the oil companies (British Petroleum and Gulf Oil) (9).

The Ruler demanded that something had to be done to increase Kuwait's revenue derived from the utilization of its natural resources. This was because Kuwait's revenue on a comparative basis was substantially less than those obtained from similar sources in the neighbouring countries. The Ruler felt this disparity in Kuwait's revenue from oil development had seriously impaired his dignity and prestige in the Persian Gulf area and particularly in his own country. He insisted that the situation had to be recognized and something had to be done about it promptly. Bearing in mind the Ruler's recurrent demands, the levying of a 50-50 income tax by Saudi Arabia, and the action taken by the Persian Majlis (Assembly) toward the nationalization of the oil industry in that country, Gulf Oil gave careful consideration to the Kuwaiti problem, with the result that Gulf became firmly of the opinion that the only feasible solution of the Kuwaiti problem was to accede to the imposition by Kuwait of an income tax along the lines of that imposed by the Saudi Arabian Government in December 1950. Gulf felt this would satisfy the Ruler and restore his prestige, provided it was done promptly.

The Ruler's intention to act in this way coincided with the oil companies plan to introduce Income Tax Law no.3/1951. Nevertheless, the British political agents in Kuwait were capable of obtaining, through diplomatic means, the upper hand in such circumstances, and therefore facilitated the imposition of the Tax Act.

More importantly, however, the introduction of Income Tax Law no.3/1951 involved extensive and complicated negotiations between the two holding companies of Kuwait Oil Company (hereafter as KOC), Anglo-Iranian Oil Company (hereafter as AIOC) and Gulf Oil. Because of the complexity and interrelation of the interests of the various parties involved in this matter, the negotiations ran into

various sorts of difficulties. For example, the two main parties (AIOC and Gulf Oil) appeared to accept in principle the application of an equal profit sharing arrangement (the 50-50 basis) in Kuwait, on the analogy of the Aramco arrangement, but neither was willing to agree to the other's proposals for the reorganization consequent on its application.

According to the Gulf proposal the KOC concession would be divided into two, half being held by the Gulf Oil and half by AIOC. These two companies would make joint agreements with KOC to operate their concession. This would make Gulf Oil an American producing company in Kuwait, and would, therefore, qualify for full United States tax relief. AIOC disliked this scheme on a number of grounds. Firstly, it was against the practice whereby concession in the British Commonwealth, including British Protectorates or protected states, were only granted to British Commonwealth companies. Secondly, it involved reorganization of the Kuwait concession. This would have given the Ruler a chance to demand onerous undertakings in return. Thirdly, it broke the partnership with AIOC in the KOC. Finally, it would have resulted in different payments per ton being made to the Ruler of Kuwait by Gulf Oil and AIOC. This constituted a possible source of trouble. As the British Minister of Fuel and Power indicated

"We feel that the probability that the two partners would be paying different rates per ton is very likely to sow the seeds for future trouble, since the Ruler may try to favour the interest of the partner who is paying him a higher figure (10).

The AIOC, on the other hand, proposed that K.O.C. continue to own and operate the concession but that two trading companies should be set up to dispose of the Kuwait oil, one being a British company owned by Anglo-Iranian and the other an American company owned by Gulf. The K.O.C. would sell the oil to the two trading companies on the basis of cost plus 1/0d. The two trading companies would then pay the Ruler of Kuwait a make-up tax, calculated on the basis of this tax plus the royalties paid by the KOC aggregating 50% of the profit before charging royalty. Gulf was not satisfied with this proposal for two reasons: first, payments of tax in Kuwait by a trading company would not qualify them for relief from U.S. tax; and secondly, Anglo-Iranian's proposal would also leave a possibility of the two trading companies paying different rates to make-up the tax per ton to the Ruler of Kuwait (i.e. an issue that was presented in the Gulf proposal and was objected to by A.I.O.C.) (11).

The negotiations between A.I.O.C., Gulf Oil, and other concerned parties over the change of royalty rate and the imposition of income tax absorbed most of 1951. It resulted in a new agreement with the Ruler of Kuwait, Sheikh Abdullah Al-Salem, initiated by K.O.C., in which the 50-50 principle was adopted. It also resulted in the

reorganisation of K.O.C. in order that the American group could claim full U.S. income tax relief. This involved the conclusion of new political agreements between His Majesty's Government and the two oil companies (A.I.O.C. and Gulf), and the conclusion of a number of agreements between the two companies, together with an amendment to the concession and the preparation and issue of Kuwait Income Tax Law. The main features of the new agreement were:

- 1) Division of profits on the '50-50' basis between the company and the Ruler.
- 2) Payments to the Ruler to be made in the form of a flat rate of royalty per ton plus revenue from a local tax to make up the balance of the Ruler's share of the profit.
- 3) The flat rate per ton was 4s. 10.5 d. (rs.3/4) (about 24.4P).
- 4) All payments to the Ruler were to be made in sterling.
- 5) A minimum annual payment of ú5 million for two years was to be made to the Ruler if the company had to suspend operations owing to force majeure.
- 6) The company was to make an annual grant for the purpose of higher education of Kuwaitis in institutions overseas.
- 7) The company was to review the situation in the event of any increase in the payments made to Iraq or of any other changed circumstances.
- 8) Certain territorial adjustments were made in the area covered by the concession.
- 9) The term of the Concession was extended by 17 years, and thus had a further 75 years to run (12).

The British Political Agency, the treasury, and the Ministry of Fuel and Power were in close touch with the negotiations throughout and were responsible for resolving a deadlock between the two companies (A.I.O.C. and Gulf). Although these parties were glad that the agreement was concluded, they were not entirely happy at its terms as they (and the A.I.O.C.) should have preferred. According to the British side, a higher rate of royalty was needed in order to cushion the economy of Kuwait in a bad year and because of the risk that the Ruler would eventually become discontented when he realised that higher royalty rates had been offered elsewhere. From the American point of view, they would benefit from a lower rate of royalty, and the Ruler did not ask for an increase. The Ruler of Kuwait, Sheikh Abdullah Al-Salem, on the other hand, was kept informed throughout the negotiations. This was the policy of the Political Agency in Kuwait and the British Foreign Office. In fact, the Foreign Office instructed the Agency that:

"Whatever offer is made should be presented to the Ruler in the simplest possible form...it might be better to tell him straight away that the companies wish to make him an offer of so much per ton.

before going into the detailed means of achieving this. Nevertheless, it will be essential at some stage to explain the details fully and precisely, and the reasons why the various complicated financial measures are necessary from the point of view of the companies. It might also be advisable, and indeed under the terms of the Political Agreement it should be necessary, for negotiations to take place, if not through the Agency, at least in the presence of the Political Agent, who should be fully briefed so as to be able to reassure the Ruler that his interests were not being ignored."(13)

The managing Director of K.O.C. was also in close contact with the Ruler with respect to the development of the negotiations. He acted as a mediator between the companies and the Ruler. They met several times and discussed the Ruler's demands and the corresponding company's' position. Throughout the negotiations, the Ruler insisted on three conditions, which were, as already discussed, included in the new agreement. They were:

- 1) the principle of equal division of profit or "50-50" principle;
- 2) provision for a minimum share of the profit which would accrue to the Ruler under the "50- 50" principle;
- 3) reconsideration of any agreement in regard to payments which were arrived at should there be a significant change later in the Middle East level of payments (14).

The conclusion of the new agreement was followed by the promulgation of Kuwait Income Tax no. 3/1951. This was completed in a private meeting held in Dasman Palace, jointly by the Ruler, the British Political Agent, and representatives of the oil companies (K.O.C., A.I.O.C., and Gulf Oil). As the British Political Agent stated

"The Ruler asked me again to state His Majesty's Government's attitude towards the Income Tax decree and this I did, in accordance with my instructions. He then made Kemp the Ruler's British adviser state "in the presence of the Political Agent" that his lawyers had found nothing objectionable in the decree. Finally he said that, while he did not understand it, an admission which as an honorable man felt bound to make, he was nevertheless prepared to sign it. At this point it was discovered that no one had an Arabic copy of it" (15)[emphasis added].

The same group (in addition to the Assistant Political Agent) met the following day at the British Agency to sign four copies of the following documents

- (1)- An agreement altering the Concession.

- (2)- A letter of confirmation of the "two points" (procedures for calculation of "gross revenue" and the tie up (with Iraq terms).
- (3) A letter of admission of the applicability of income tax.
- (4) A letter regarding arbitration under the Income Tax decree.

As the British Agent indicated that before signing the Sheikh had said

"...if, after signing, at any future date there were to be any misunderstanding, then the Companies should depend upon his Arab sense of honour to resolve it. He had no wish to hear that lawyers had said this or that, -that did not interest him, -he was a Bedouin and did business by reliance upon the spoken word...At my own reception on New Year's day the Ruler reverted to the subject and said that the Companies should reply upon the honour of the Arabs as he relied upon the "honour of the Saxons."

Finally, it is important to indicate again that the dynamisms of the negotiations over the change of the oil concession and the imposition of Kuwait Income Tax Law no.3/1951, highlighted above, involved serious and complicated interaction between the various parties concerned and/or affected. Some aspects of this interaction go beyond the scope, or perhaps the limits, of the present study. This is attributed to, at least, two elements: firstly, the diversity of the subjects associated with the change of the oil agreement; and secondly, the multiplicity of the parties involved, interested, or affected directly or indirectly (e.g. A.I.O.C.; Gulf Oil (therefore their holding companies); the Ruler; the Political Agency; the British Foreign Office; the British Treasury; the U.S. State Department; the K.O.C.; the Iraqi Government and Iraq Oil Company; the Persian Government; in addition to the various parties within Kuwaiti society, mentioned below).

The above elaboration, so far, focused on the international dimension of the environmental conditions associated with the emergence of Kuwait Income Tax no.3/1951. Despite the fact that the international conditions formed the main factors associated with the imposition of income tax on the oil companies operating in Kuwait, the national circumstances constituted the prime elements associated with the Ruler's determination to change the oil agreement in the first place. The classification of these conditions into national and international are not meant to offer either category more credit than the other. Instead, it is for reasons of clarity and presentation. The international and national circumstances constituted the conditions of possibility for the emergence of tax regulations of the 1950s in Kuwait.

The serious developments on the international level synchronized others on the national level. The revival of the nationalist movement in Kuwait and throughout the Arab states formed, as expected by Western governments, a potential threat to

their interests in the area. Where, in the case of Kuwait, the political atmosphere was in line with such movement. This is because, unlike his predecessors, the new Ruler, Sheikh Abdullah Al-Salem, was more cooperative and sympathetic with the opposition (the nationalists and the democrats) (16). He believed that the Kuwaiti merchants from the opposition have a significant role to play to bring about progress and prosperity to Kuwait. Despite the Ruler's attitude towards the opposition, several powerful members of the ruling family stood against the course of events towards democratic changes. However, they disappeared during the second half of the fifties (i.e. the two most powerful and anti-democratic figures of the ruling family died in 1957 and 1959). Nevertheless, in line with Western expectation, the political activities of the early 1950s substantiated the extent to which the nationalists' threat was inevitable. The prevailing political and economic developments of the early fifties (II-a and II-b in Figure 1) set the path for another shift which resulted in further changes in government legislation (Income Tax Law no.3/1955). On the economic front, the out-come of introducing the tax act no.3/1951 was significantly positive for the Kuwaiti society. As shown in Table 3, substantial financial gains were achieved (i.e. the oil companies made similar, if not more, financial gains). The Kuwaiti government made an annual increase of 216.6% and 195.6% in revenue in 1952 and 1953, respectively. The Ruler's political attitude and vision, and the initial steps in the direction of political reform led to further changes, with respect to government policies.

In short, the environmental conditions (international and national) associated with the emergence of Income Tax Law no.3/1951 put the political, economic and social structure of the Kuwaiti society in a different format from that which prevailed in the forties. As mentioned above, this shifted the course of events in a different direction, within which Income Tax Law no.3/1955 emerged. The conditions of possibility for the emergence of this law are discussed in the following section.

The Environmental Emergence of Kuwait Income Tax law No.3/1955

As indicated above, the emergence of income tax law no.3/1955 was associated with environmental conditions different from those synchronized the issuance of law no.3/1951. In fact, the changes introduced to the latter in the form of issuing the former reflect the advent of a new stage in economic and political developments in the Kuwaiti society. The imposition of law no.3/1951 was associated with international and national factors, while law no.3/1955 was associated with a homogeneous set of domestic factors combined, to some extent, with regional conditions. Accordingly, the argument set forth in this section is based on one assumption: it is that the economic status of the Kuwaiti society and the domestic and regional political mode had substantial influence over the government's policies (or decisions), one of which was the changing of Income Tax Law no.3/1951 by

substituting it with law no.3/1955. As illustrated in Figure 1, the government's other decisions (Z) included: the establishment of the National Bank of Kuwait; the establishment of Kuwait Investment Board; the appointment of British experts; and reorganizing of foreign companies operations. Accordingly, the conditions of possibility for the emergence of Income Tax Act no.3/1955 are to be visualized within the same context of these four government policies. These policies had no direct influence on the emergence of Law no.3/1955. They, instead, reflect the societal circumstances or the environmental mode in Kuwait during that time. In other words, the imposition of the Tax Act no.3/1955 and the adoption of these four government policies came about under the same environmental (economic and political) conditions, which were associated primarily with challenges to the British influence on the economic and political front (II-c in Figure 1). The following details reflect such position.

The shift in the political structure of the Kuwaiti society, which emerged during the early 1950s, is partly attributed to the poor social and political conditions on the domestic level (i.e. among which was the inefficient administrative systems that were under the control of members of the ruling family, who were opposed to any form of democratic change); and is partly ascribed to regional development in the form of the struggle, which re-emerged in Egypt, against the imperialists and their agents which inflamed the political climate in all Arab states.

In Kuwait, the political activities were led by Arab activists, carried out by Kuwaiti intellectuals, and were supported by the liberal merchants (17). Such a status put new constraints on the decision-making process, especially when issues that concerned the British (as a dominant foreign force in Kuwait) were addressed. The British political agents in Kuwait, therefore, entered a transitional era of bargaining (II-d in Figure 1) on long-term government policies, which was absent during the reign of Sheikh Ahmed Al-Jabir and his predecessors (18). Decisions by the government on major policies were made on the basis of give and take, through which the Ruler succeeded in balancing the satisfaction of all parties involved (i.e. the British, the opposition, and members of the ruling family).

Bearing in mind the prevailing environmental conditions, the Ruler handled the internal conflicting issues with utmost caution and wisdom. First of all, the change of the 1934 oil agreement, through the introduction of income tax law no 3/1951, met the intention of the Ruler as well as that of the merchants, because it served the interest of the national economy. The Ruler also fulfilled the merchant's request for the establishment of the National Bank of Kuwait in 1952. On the other hand, he satisfied the British request for the establishment of the Kuwait Investment Board in London in 1952. The Ruler also appointed British experts to oversee the build up of the state's infrastructure, while at the same time he reorganized the operations of foreign companies by introducing tighter restrictions in regard of

government contracts. This is in addition to the imposition of income tax (i.e. Law no.3/1955) on all companies operating in Kuwait. This latter issue constitutes the centre of the discussion in this section. The discussion below further explores the above mentioned issues in order to assess the conditions of possibility for the emergence of Income Tax Law no.3/1955. As illustrated in Figure 1, the conditions of possibility for the emergence of change reside in the series of political and economic events of the early 1950s. Whereas, following the change of the 1934 oil agreement through the introduction of Income Tax Law no.3/1951 phenomenal increases in government oil revenue were made. Such developments provided better opportunities for the government to undertake large strikes towards improving the standard of living by spending significantly on welfare considerations. Major projects (e.g. water desalination, power stations, roads, hospitals, schools, etc.) were set up by the government and were executed by foreign contractors. On the other hand, the flow of funds stimulated the merchants to the idea of establishing a national bank which also gained the support of the Ruler. During that time this action if undertaken by the Ruler would have been considered as a breach to the concession offered to the British Bank based in Iran. Knowing that British overseas banks monopolized banking services not only in the Gulf but in the Middle East as a whole during the period post First World War. In the case of the Arabian Gulf states branches of British banks were set up (e.g. Bahrain 1920, Kuwait 1942, Dubai 1946, Oman 1948, and Qatar 1950). Overseas British banks in the Gulf regularly undertook the role of a central bank or state bank, such as handling government accounts, the issue of currency, and as lender. In addition, these banks functioned as merchant banks that facilitated loans, and as commercial banks, in which deposits were collected to re-finance other banking operations (19).

In the case of Kuwait any bank would have benefited from deposits of the government as well as the private sector. Nevertheless, the decision in this regard was made and the National Bank of Kuwait was established in 1952, and therefore the British lost a great deal (20). This event formed the first counteraction against British interests in Kuwait.

Despite the establishment of the National Bank of Kuwait the Ruler gave assurances to the British that previous arrangements would not be affected by the new developments. However, the loss for the British bank was substantial, especially during that particular time when government oil revenue was rising enormously. In addition, according to the 1934 oil agreement, the two foreign partners in Kuwait Oil Company (KOC), BP and Gulf Oil, paid their contributions to the government of Kuwait through an account held in London. The funds were then transferred to the government's account at the local branch of the British Bank of the Middle East. Although, these arrangements were maintained, according to the Ruler's promise to the British, the establishment of the National Bank of Kuwait had some effects on the British bank's operations. Under these developments the British suggested to the

Ruler the establishment of an investment office in London. After several attempts the Ruler finally accepted the idea. In 1952 the Kuwait Investment Board was established to handle government investments. This board consisted of five British bankers and chaired by the Director of the Middle East Department at the Bank of England. The Kuwait Investment Board was later replaced by Kuwait Investment Office, which is still in operation. With the establishment of the investment board the British have benefited considerably, because the government's savings were held in sterling (BP paid in sterling, and Gulf Oil paid in dollars which were then converted into sterling) (Khouja, 1979).

Another dimension of the environmental developments, which accompanied the political turmoil of the early 1950s, and which was associated with the flow of government funds from oil, was the build up of the state's infrastructure. This issue received the attention of the merchants as well as the foreign companies, including the British. Its primary impetus came soon after the take over of the leadership by Sheikh Abdullah Al-Salem when the British political representatives initiated the idea of recruiting British consultants to oversee the development operations in the state. After a long postponement the Ruler appointed a group of British experts under his conditions. The appointment of the British experts was associated with the monopolization of government contracts by five British companies, which was also in favour of the Kuwaiti agents of the British companies (i.e. a few merchants from a relatively large group). Such position provoked other Kuwaiti merchants, which led the Ruler to cancel all previous government contracts. Accordingly, all foreign companies (British as well as non-British) were given equal opportunity to obtain government contracts through fair bidding procedures. This vividly indicated the transitional stage of bargaining of the mid-1950s. On the other hand, this case as well as those discussed above indicate that, for the Ruler, public interest and the satisfaction of the people, especially the merchant, was a top priority. This was added to the driving political movement towards nationalism and Arab unity against Western imperialism.

Similar circumstances surrounded the imposition of Income Tax Law no.3/1955, because, as discussed below, when this act was implemented only foreign companies (foreign partners) were levied the required tax, while local companies were exempted (21).

The overall picture drawn from the five environmental events, including the change of Income Tax Law no.3/1951, demonstrated a sharp shift in the level of Western domination (namely the British) on the domestic affairs of Kuwait. This was attributed to the political turmoil of the period. On the other hand, it was ascribed to Britain's intention to arrange long-term policies (e.g. Kuwait Investment Board, the appointment of British experts, and the like) as a preparatory stage for eventual independence of Kuwait. However, the decline of the British influence was

associated with a stronger hold by the Ruler, and therefore, the merchants on domestic issues, through which more restrictions were imposed on foreign companies (Al-Mejrin, 1982). One such issue was the imposition of Income Tax Law no.3/1955. As indicated above, this law required all companies (not only those operating in the oil industry) to pay income tax at a rate that corresponds to their level of income (Table 2).

Conclusion

The main purpose of this study was to investigate and analyse the environmental emergence of the Kuwait Income Tax legislation of the 1950s period. However, due to the fact that the 1950s constitutes a radical stage of environmental development in the history of Kuwait, it was necessary to highlight the state of the Kuwaiti society during the era prior to 1950. Therefore, the analysis in this study covered the period 1899-1950s. According to the Foucauldian notion of discontinuity of history, the period 1899-1950 is considered as discontinuous in relation to the preceding historical period (1756-1899 which is not addressed in this study). The point that needs to be made here is that the period 1899-1950 was started by the British intervention in Kuwait, by signing the Protectorate Agreement with the Ruler of Kuwait. This position remained until 1961. In 1950, however, radical changes emerged, which gave the 1950s distinct characteristics.

The discussion on the period 1899-1950 showed the state of Kuwaiti society prior to the export of oil. It analysed the general environmental circumstances associated with the negotiation over the oil concession in Kuwait.

The emphasis of the discussion on the 1950s period, however, was placed on the environmental emergence of tax regulations in Kuwait. They included: Kuwait Income Tax Laws no.3/1951 and no.3/1955. The emergence of these laws was associated with the political and economic conditions which prevailed during that period. The Tax act no.3/1951 emerged in association with international as well as national factors. The Tax Act no.3/1955 was accompanied by a homogeneous set of government measures influenced by the political atmosphere of the period traceable to a tendency of Middle-Eastern governments to break with Western dominance.

On the national level, the Ruler's request to raise the royalty rate to increase Kuwait's share in the oil revenue was central. The Ruler's intention was to use the country's natural resources to bring about socio-economic reforms on a large scale. This was associated with multiple international circumstances.

The restrictions imposed on oil companies by their home government (US and UK) with regard to foreign tax credit; the 50-50 profit share scheme concluded between the Government of Venezuela and American oil companies operating there; the request from the Saudi Government to raise their royalty rate which was concluded with the issue of Income Tax Law in Saudi Arabia in 1950; and the competitive financial position of the oil companies operating in the Gulf region (particularly in Kuwait, Saudi Arabia, and Iraq) were among the decisive conditions that were associated with the emergence of Kuwait Income Tax Law no.3/1951.

The change of the Income Tax Law no.3/1951 in the form of substituting it with Income Tax Law no.3/1955 was associated with conditions which emerged after enacting Law no.3/1951. The increase of government oil revenue as a result of imposing tax on the oil companies (or perhaps as a result of adopting the 50-50 profit share principle, which necessitated the imposition of income tax) was a considerable motive to expand its concern to other foreign companies operating in Kuwait. As in the case of other government measures, through the imposition of tax on all foreign companies the public interest, on the one hand, and the prevailing general anti-Western mode, on the other, were significant. The establishment of a national bank in Kuwait, the organization of foreign companies' operations in Kuwait were among the policies undertaken by the Ruler in this direction. But at the same time, the Ruler wanted to balance out his decisions to satisfy all parties involved. He decided to establish the Kuwait Investment Office under the guidance of the British. The Ruler also appointed British experts following the suggestion from the British Agency in Kuwait. Generally speaking the Ruler satisfied all parties involved.

To complete the discussion, it is important to indicate that the general anti-western mode continued and intensified towards the end of 1950s. It was apparent on the regional level, but there was considerable agreement with this mode on the domestic level in Kuwait. On the other hand, the decline of the British influence in Kuwait was also moving in the same direction. The Ruler of Kuwait and the British authorities in Kuwait took the necessary measures jointly in order to bring about decisive changes (i.e. the political independence). This political transformation was associated with judiciary and economic transformations, which were, collectively, associated with the emergence of the 1960s government business and accounting regulations. These issues can be dealt with in another study.

Footnotes

*) The original name of the Anglo-Iranian Oil Company it was changed again to British Petroleum (BP). For details see Mikdashi, Zuhayr, 1986, P. 87. * Aramco (Arabian American Oil Company) is an American Oil Company that was in control of the state's foreign affairs. During certain historical periods this was extended to encompass major

government decisions on domestic issues. * Details on this issue are beyond the scope of the present study. Agreement with the British government. According to these agreements the British were in control of the state's foreign affairs. During certain historical periods this was extended to encompass major government decisions on domestic issues. Details on this issue are beyond the scope of the present study.

1. The usurpation of power by Sheikh Mubarak, and his intention to reduce the Ottoman influence over his country are important elements in the signing of the agreement with the British Government. For details see Ismael, J., PP.36 and 49-50.
2. Fixed assets owned by companies (tax-payers) before the imposition of this Act could be depreciated as if this Act was applicable at the time of purchasing the assets. In case of transfer of assets from one company to another (as a matter of re-organization of the company) the book value of the asset before the transfer can be used for the purpose of calculating depreciation by the receiving company.
3. According to article eight the Tax Director shall issue annually a list of two or more internationally recognized firms of accountants which are approved by him in respect of taxable periods ending in such year.
4. Income Tax Laws no.3/1951 and no.3/1955 are identical except for the changes introduced by the latter. These changes (presented in sub-section 6.3.2.) were added as a result of associated environmental circumstances.
5. Building such as offices, dwellings, stores, hospitals and clubs 4%; roads and bridges 4%; tanks, pipe-line, jetties and wharfs 5%; office furniture and equipment 15%; plant, machinery and equipments other than those indicated below 10%; motor cars and motor cycles 33.5%; lorries and trailers 25%; marine craft 7.5%; aeroplanes 25%; drilling and clean-cut tools 33.33%; service replacement plant (including construction and road-making equipment, workshops and equipment and sundry others) 25%; service station building and driveway 10%; servicing, greasing and other service equipment 15%; carts 20%, and refinery plants, pipe-line (within refinery) and small tanks 10%).
6. Blair (1977, PP.200-202) further noted that, as a result of this solution Aramco's payment to the US Treasury fell from \$50m to \$6m, between 1950 and 1951. Therefore, the only loser was the American tax-payer, who had to make up the loss in the US tax revenue. By 1955 the loss reached \$154m. With regard to U.K. oil companies, they were not operating in Saudi Arabia, their position in Kuwait was different. Foreign income taxes were credited only up to 75% of the United Kingdom income tax if the foreign country was within the "Commonwealth territories", and only up to 50% of the U.K. income tax if the foreign country was not within the "Commonwealth territories". However, because Kuwait was a protectorate state, it therefore fell within the definition of the "Commonwealth territories".
7. Articles no. 1,2, and 3 of the Saudi Royal Decree. This Decree was a special supplement to the Royal Decree no.17/2/28/3321. For details see P.R.O.F.O. no.371/91334.
8. The income tax Decree of Saudi Arabia was apparently influenced by similar tax legislation in Venezuela passed few years earlier. The 50-50 principle carried out by the Decree had a great deal of popular appeal and had solved a very difficult and critical situation in Saudi Arabia. For details see P.R.O.F.O.no. 371/91334.
9. The two companies were operating in the position of middlemen and brokers. British Petroleum agreed to sell Kuwaiti crude oil to Standard Oil Company of New Jersey and Mobil Oil Company (i.e. an agreement was signed in 1947 and 1948 for a quarter of a

- century). While Gulf Oil Corporation agreed to sell its share of Kuwait oil to Shell, Gulf Oil and Shell share the profit on the sale of crude oil, its transport, its refining and marketing of the products. Therefore, the prime loser by as a result of these deals was the Kuwaiti government. Al-Sabah, Y.S.F., *The Oil Economy of Kuwait*, 1980, Kegan Paul International Ltd., London.
10. Notes prepared by the British Minister of Fuel and Power on the situation in Kuwait drawn on May 5th, 1951 after discussions with Anglo-Iranian and Gulf, P.R.O.F.O. no.371/91334.
 11. Report by the British Political Agent in Kuwait. For details see P.R.O.F.O. no.371/91334.
 12. At an estimated production of 40 million tons the Ruler's revenue was estimated to be about £60 million, compared to £4 million in 1950. For details see P.R.O.F.O. no.371/98417.
 13. Foreign Office correspondence with the Political Agency in Kuwait. For details see P.R.O.F.O. no.371/91334, Eastern Department-Arabia (EA15310/22).
 14. Correspondence dated October 6th and 14th, 1951 between the Ruler and the Managing Director of K.O.C. (C.A.P. Southwell); see P.R.O.F.O. no. 371/98417.
 15. Despatch from the Political Agency (by C.J.Pelly), Kuwait, January 3rd, 1952.
 16. The Ruler Sheikh Abdullah Al-Salem was the Chairman of the dissolved Legislative Council of 1938. He was ill-favoured by the British. See Al-Najjar, G., 1985, PP.22-23.
 17. 1954 witnessed intensive political activities (Pro-Arab and against Western imperialism). Many secret statements to that effect and against the government were distributed by different political groups. For details see Al-Najjar, G., 1985, PP.33-41.
 18. The British were in a transitional stage. From a period of full control (1921-1940s), where they controlled the foreign affairs of the state, to a period in which the opposition, obviously through the Ruler's support, constituted a driving force. This position was further changed by the independence in 1961 (I in Figure 6.1).
 19. Jones, Geoffrey, *British overseas banks in the Middle East 1920-1970: a study in multinational Middle age*, in Alice Teichova, Maurice Levy-Leboyer and Helga Nussbaun (eds.), *Multinational enterprises in historical perspective*, P. 218, PP.220-221, Cambridge University Press, Cambridge, 1986.
 20. The dominant role played by overseas banks, such the British, started to diminish as a result of three factors. First, the rise of challenge by the new governments (i.e. nationalist or socialist) which developed in the Middle East from the fifties onwards. Therefore, foreign banks were disliked for their W(e.g. American banks). Throughout the fifties pressure in the form of operational restrictions mounted on foreign banks in the Middle East which resulted in their nationalization (e.g. Egypt 1956; Syria 1961; Iraq 1964; Republic of South Yemen 1969, and; Libya in 1970). The British Bank of Middle East in Kuwait was relinquished in 1971 (expiration of concession), and was substituted by a Kuwait bank (The Bank of Kuwait and Middle East). For more details see: Jones, Geoffrey, 1986, PP.222-228.
 21. Prior to 1961, when the Kuwaiti Dinar (KD) was issued, the Indian rupee was the circulating medium in the Gulf, including Kuwait. The government of Kuwait obtained rupees by sellidia without having the effects of the circulation of the previous currency. For details see: International Bank for Reconstruction and Development (I.B.R.D.), *The Economic Development of Kuwait*, The Johns Hopkins Press, 1965, PP.74-75.

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| 371/109810; | 371/109811; | 371/98349; | 371/98350; | 371/98351; |
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| 371/148858; | 371/148910; | 371/148948; | 371/148982; | 371/148988; |
| 371/149107; | 371/149115; | 371/149116; | 371/149117; | 371/132532; |
| 371/132536; | 371/132547; | 371/132555; | 371/132568; | 371/132576; |
| 371/132612; | 371/132633; | 371/132757; | 371/132761; | 371/132765; |
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TABLE 1
Kuwait Income Tax Law No. 3\1951:

No. of article	Description	Remarks
1	The method of determining income tax	Effective from 31.12.1954
2	Definitions	
	a-Tax payer b-Each taxable period c-Director d-personnel of Director e-Kuwait f-Body corporate g-Duties h-Income i-Carrying on trade or business in Kuwait j-The appropriate percentage	- The Director of income Tax - Excluding the Neutral Zone between Kuwait/Saudi Arabia and same islands and their territorial waters. -Some trades are mentioned - Income figures and tax (%) are provided.
3	Deductions from income: a.-cost of goods sold or service rendered. b.-Expenses accrued against or paid by the tax payer. c.-Depreciation, exhaustion and obsolescence d-Uncompensated losses sustained in the taxable period connected to the trade carried out in Kuwait e-An amount for the amortization of direct expences incurred in some prospection operations	-A table of different assets and the appropriate (%) is enclosed in the degree. -The decree shows the method to deal with amortization.
4	The evaluation of property for the purpose of computing exhaustion, depreciation and obsolescence	
5	The taxable period: It means the accounting period used by the tax payer. The Christian calendar year is applied here.	- The taxpayer should obtain an authorization to change this basis. It shall not exceed one a half Christian calender year.
6	The computation of income: - The accrual basis.or - The cash bases.	-The taxpayer is intitled to use the method regularly employed in converting one currency to another, but it should be recognized in commercial accounting.
7	-Treatment of sustained losses: They shall be carried forward against income of subsequent periods.	-This shall be done in the first subsequent period as far as possible.

8	-Income tax declaration: The submission is on the 15th of the fourth month following taxable period.	-The decree provided the method of payment and the penalty in case of failure
9-14	-Administrative and legal rights and obligations of the taxpayers as well as the director of Income Tax	

TABLE 2:
Taxable income brackets (Income Tax Law no.3\1955

Exceeding	But not exceeding (rupees)	The percentage shall be
-	70.000	Nil
70.000	250.000	5
250.000	500.000	10
500.000	750.000	15
750.000	1.000.000	20
1.000.000	1.500.000	25
1.500.000	2.000.000	30
2.000.000	3.000.000	35
3.000.000	4.000.000	40
4.000.000	5.000.000	45
5.000.000		50

Source: Income Tax Law no.3/1955, Kuwait Government Press.

TABLE 3:
Growth of oil production and revenue, 1946-1977

Year	Crude Oil	Production	Government Oil	Revenue
	(Million Us=S Barrels)	(Annual Increase%)	(Million USS)	(Annual Increase%)
1946	0005.9	-	0000.76	-
1947	0016.2	174.0	0002.07	172.3
1948	46.5	187.0	5.95	187.4
1949	89.9	98.0	11.52	93.6
1950	125.7	39.0	16.09	39.6
1951	204.9	63.0	18.00	11.8
1952	273.4	33.0	57.00	216.6
1953	314.6	15.0	169.00	195.6
1954	349.7	11.0	194.20	14.9
1955	402.7	15.0	281.70	45.0
1956	405.5	0.6	293.70	4.2
1957	424.8	4.7	308.00	4.8
1958	522.4	23.0	356.70	15.5
1959	525.9	0.6	419.40	17.8
1960	619.1	17.7	445.80	6.3

1961	633.3	2.2	467.40	4.8
1962	714.6	12.8	484.40	3.6
1963	765.2	7.0	513.80	5.7
1964	842.2	10.0	554.40	7.9
1965	861.5	2.3	567.50	2.4
1966	907.2	5.3	598.30	5.4
1967	912.4	0.6	648.80	8.4
1968	956.6	4.8	736.70	13.6
1969	1011.7	5.8	690.20	-6.3
1970	1090.6	7.8	784.00	13.6
1971	1116.4	2.4	963.00	22.8
1972	1201.6	7.6	1650.00	71.3
1973	1102.5	-0.8	1795.20	8.8
1974	929.3	-15.7	7094.90	295.2
1975	760.7	-18.2	8641.20	21.8
1976	785.2	3.2	9802.80	13.4
1977	718.0	-8.5	8963.10	-8.0

Source: Khouja M.W. and P.G.Sadler, The Economy of Kuwait Development and Role in International Finance, 1976.P.26.