04

PALESTINE

Colonial Taxes in Palestine

Prepared by:
Firas Jaber
Social and Economic Policies Monitor (Al-Marsad)

1. Colonialism and taxation in Occupied Palestine:

The history of taxes in Palestine is long and goes back to the empires and the States that ruled the Arab region, including Palestine. In the Byzantine era, a large number of taxes were imposed on people, including land taxes, canal taxes, grain taxes, head taxes, trade taxes, and taxes on crafts, houses and livestock. In the Arab-Islamic era, taxes were set by tribute and abscess. In the Ottoman era, in addition to the general taxes, governors imposed taxes of their own, including some strange ones, such as the tax of celibacy, marriage, and "the arrival of boys." These taxes were taken when a baby was born, in addition to a tax collected in every feast [56], which turned into a social custom practiced on holidays among relatives.

The aim of the State was to impose and collect taxes mainly to finance its expenses and armies, but as we saw in the Ottoman era, this has impoverished people and increased the wealth of certain classes of rulers and administrative staff. It was also an essential tool to confiscate lands from farmers for failing to pay the high taxes imposed on them. "The profitability of export-oriented agricultural production and the expansion of agricultural lands have led Turkey to re-examine the laws on the individual ownership of lands, and has thus enacted the Land Act in 1858 and the Land Foreign Ownership Act in 1867. The Ottoman government sought this given the need for money to cover war expenses through the commitment system. Therefore, lands were transformed into commercial commodities, and the transfer of lands from one owner to another was facilitated; this resulted into an economic transformation of agriculture to concentrate land ownership in fertile areas, where heavily indebted farmers have been forced to sell their lands to repay these debts." Some taxes[57] imposed during the Ottoman era continued for a long time after its demise, and some of them are still in effect in the Occupied Palestinian Territory.

The British Mandate kept this pattern of exploiting the Palestinians for the purposes of financial collection and the liberation of labor through land control and ownership expropriation; it made adjustments to the tax system, the most important were the agricultural taxes. "The British colonialism introduced a new system of fees collection on agriculture and agricultural lands, replacing in-kind income with cash income. Taxes and collection forms were also amended, from the tenth to a fixed annual tax, while promoting the status of villages' mayors as tax collectors, which weighed heavily on farmers, and contributed to lands transfer through sale to the Jewish Agency." As anger mounted over[58] Jewish control of the territories, during the 1936 revolution, people refrained from paying taxes, in addition to boycotting Jewish settlements.

56 Palestinian Encyclopaedia, taxes, link:
http://www.palestinapedia.net/%D8%A7%D9%84%D8%B6%D8%B1%D8%A7%D8%A6%D8%A8/

57 Mohamed, Jibril. 2010. Agrarian Question in Palestine: From Ottoman Obligation to Zionist Occupation. Ramallah: Union of Agricultural Work Committees.

58 Ibid

The world's transformation as a result of the industrial revolution transformed the State from feudal systems and empires into modern political systems, where the modern State was organized on the basis of the social contract between the State and the citizens. In addition, constitutions and laws issued by representative institutions have been enacted. Thus, taxes and authorities to impose them have been regulated and restricted through certain mechanisms that cannot be bypassed; therefore, these were collected for the benefit of the State treasury, while the State paid for the basic services for citizens like health, education, work, infrastructure, social protection, security, etc. However, the transformation resulted into two divided worlds, a first world comprising a group of colonial countries that had evolved over centuries by exploiting the peoples of the Third World, and another world composed of the Third World countries, i.e. a large group of colonized countries that continued to be subjected to various forms of exploitation and looting by colonial countries. But this description does not apply to Palestine, which remained under direct occupation that imposed harsh taxes aimed primarily at uprooting the Palestinians from their lands and impoverishing them, and financing the occupation.

2. Taxes under the Palestinian Authority:

The Palestinian Authority has not moved far away from the "historical" implications of the taxes imposed on the Palestinians, a historical aspect that bears many elements of the relations of hegemony, domination and attempts of subjugation, albeit under a national perspective this time. Upon establishment, the Authority has been subjected to agreements with the Israeli Occupation, including the Oslo Agreement on the civil-political level, and the Paris Protocol on the economic level, including taxes. Therefore, we have witnessed a shift in the practice of tax collection mechanisms to become partially Palestinian, even if the Occupation continues to play a pivotal role in this process, as will be explained later.

Acquiring "independence", as in the case of the former French and British colonies, did not prevent colonialism from imposing humiliating agreements and conditions on these countries in order to "give" them formal independence, while keeping control over much of their economic resources to block their development. As stated by Mohamed (2015), this is obvious in the case of the French colonies in Africa, "13 African countries are obliged by France, through a colonial agreement, to put 85% of their foreign reserves in the French Central Bank under the control of the French Minister of Financial Control. To date, Togo and 13 other countries are obliged to pay the debts of the French colonization period. African leaders who refuse this are killed or become victims of military coups. Those who obey the orders are rewarded and supported by France and enjoy a life of prosperity, while their people are plunged into extreme misery and poverty ... which led to the injection of about 500 billion dollars in the French treasury from its African colonies."[59]

59 Abdel Moneim, Mohamed. 14 African countries are obliged to pay taxes to France. Post politicians: https://www.sasapost.com/france-colonial/

The colonial situation referred to in Africa continues in Palestine, which is subject to various agreements and means to ensure the domination of the Occupation on its economic joints, and to reap any surplus of economic value and turn it into the treasury of the Occupation, thus making it a profitable Occupation, as many have pointed out.

3. Study framework:

1) Study objectives:
First objective: Analyze and dismantle the Palestinian tax system as part of its structural relationship with the Occupation, and understand the Palestinian tax system as part of the colonial tax system.[60]

Second objective: Build a vision/orientation for the Palestinian tax system on the basis of liberalization and the pursuit of tax justice, through a number of structural, legal and conceptual interventions on the Palestinian economic/tax system.

2) Importance of the study:
There is little Palestinian literature that deals with the Palestinian tax system. The existing studies discuss the tax under its legislative, legal or economic dimensions. Although efforts have been made in recent years to view taxation as a tool for social justice, this debate has not expanded significantly within the Palestinian research community.

Moreover, the studies issued by international organizations continue to deal with the financial and tax relations with the Israeli occupation as problems that need to be modified and reformed. The importance of this view results from putting the tax in the context of a broader understanding of the colonial taxation system and the identification of its various tools and effects.

3) Methodology of the study:
The study is based on the descriptive analytical method through the following tools:
• Review and analyze Palestinian tax legislations, Israeli military orders, and economic agreements;
• Review and analyze previous relevant studies, specifically recent international studies;
• Use statistics and figures issued by the Palestinian Central Bureau of Statistics and the Ministry of Finance through its various reports;
• Use in-depth interviews conducted previously by the Monitor team.

60 For more information, review : Francis Morlabé and Joseph Collins. 1983. Hunger industry. Kuwait: National Council for Culture, Arts and Letters

4) The legal framework for taxation in the areas under the Palestinian Authority:

1. The Income Tax Law and its amendments for 2011
2. The Investment Promotion Law of 1998
3. The Paris Protocol
4. Jordanian laws pertaining to the property and fuel tax, including the Building and Land Tax Law within Municipalities no. 11 of 1954, the Land Tax Law no. 30 of 1955 and the Jordanian amendments thereto until 1967 and other amendments as per Israeli military orders that are in effect until now, as well as the Jordanian Customs and Excise Law no. 1 of 1962
5. British laws related to the property tax, including the British Property Tax Law no. 42 of 1940, which was called the "Property within Cities Tax Law" and which is applied within the Gaza Strip
6. Israeli military orders related to the value added tax, which are still applied

There are many commonalities between the Paris Protocol and Israeli military orders, specifically in the field of the value added tax and the "Blue" fuel tax. The Protocol worked to "legitimize" and give a fee aspect to military orders in a framework agreed upon with the Palestine Liberation Organization (PLO) then.

5) Types and definitions of taxes:

First: Direct taxes [61]:

Income Tax: It shall be imposed and collected from the various taxpayers working in the territory of the sovereign State. It shall be imposed on the profits of business, salaries and similar income of individuals and companies. The income tax covers most of the economic sectors, including:

a. Personal Income Tax: A tax imposed on the Palestinian citizen (natural person) residing in the West Bank and the Gaza Strip (excluding Jerusalem) for at least 120 consecutive days. This tax shall be calculated on the income resulting from any work, profession, occupation or any taxable income in accordance with the law in force.

b. Corporate Income Tax: This is the tax imposed on and collected from both private and public shareholding companies, after excluding all expenses and costs that have been spent exclusively and entirely for the purpose of obtaining income. Companies and investment projects that have an investment exemption certificate in accordance with the Palestinian Investment Promotion Law no. 1 of 1998 and its amendments shall be exempted from the corporate income tax.

Property Tax: The Building and Land Tax Law no. 11 of 1954 within the municipal boundaries is still applicable in Palestine. The property tax is the one levied on real estate belonging to Palestinians (excluding Jerusalem). This tax equals 17% of the net rental, real estate or land value after deducting 20% as depreciation. These revenues are distributed between the public treasury and the local authorities by 10% for the first and 90% for the second.

61 Abdel Karim, Nasr, and others. 2015. Evaluation study of the Income Tax Law for 2011 and its amendments from the perspective of economic and social justice. Ramallah: Muftah Foundation

Second: Indirect taxes:
These taxes are imposed on consumption, production and import activities, as well as on the real estate wealth. Below is a summary of the most important types of these taxes:

a. Local VAT: A tax that is calculated on all goods and services consumed by citizens. The Paris Protocol provides that the proportion of such tax in the areas controlled by the Palestinian Authority must not be 2% more or less than those in force in Israel. It is worth mentioning that this tax is due on the final consumer of goods and services. It is calculated and collected from the companies and individuals who are employed and registered in the VAT departments after the deduction of the production and sales tax of these companies.

b. Purchase Tax: This tax is levied on specific goods such as alcohol, cigarettes, chemicals and automobiles.

c. Clearing Tax (Unified Invoice): It is the value added tax collected by tax authorities from the Palestinian private sector as a result of purchasing from Israel or importing from abroad via its border crossings. The tax is paid to the Israeli occupation authorities, which in turn transfer it to the Ministry of Finance at the end of every month through the agreed clearing mechanism.

d. Fuel tax: The tax levied on the various fuels used in the Palestinian territories. There is no special law in Palestine for this tax to be based on. It is considered a purchase tax, like a special law in Palestine on which this tax is based, the same as the fees imposed on cigarettes and tobacco. The legal basis of these taxes is the Jordanian Customs and Excise Law no. 1 of 1962.

e. Customs duties and excise: The Jordanian Customs and Excise Law no. 1 of 1962 and subsequent Israeli military orders shall apply. It is a tax imposed on goods, services and merchandises imported from different countries in favor of the private sector, which is collected by the customs of the Israeli Occupation in favor of the Palestinian treasury according to the Paris Protocol.

f. Production Tax: The Jordanian Local Products Fees Law no. 16 of 1963, except for agricultural products, is applicable.

4. Taxation: The arm of the government:

2017 GDP is expected to reach 13,717 billion USD, according to the Ministry of Finance, while it is 8,311 billion USD according to the Central Bureau of Statistics. The total domestic revenues collected by the Palestinian government amount to 3,544 billion USD, i.e. 25.8% of the GDP according to the Ministry of Finance, and 42.6% according to the Central Bureau of Statistics.

Table number (1) clarifies the total domestic revenues out of the GDP[62]:

Year	Total domestic revenues	* Percentage of GDP	** Percentage of GDP
2015	billion USD 2,908	23.5%	37.7%
2016	billion USD 3,573	26.5%	44.5%
2017	billion USD 3,544	25.8%	42.6%

* According to the accounts of the Ministry of Finance.
**According to the Central Bureau of Statistics

Domestic revenues increased between 2015 and 2016 due to the improved transfer of clearing with the Occupation, increased domestic tax revenues, and one-time payment of telecom license fees. As for 2017, the percentage of gross domestic revenues to GDP declined slightly.

Table number (2): Breakdown of tax and non-tax domestic revenues (million USD)[63] :

Year	Tax revenues		Non-tax revenues		Total	
	Amount	% out of total revenues	Amount	%	Amount	%
2015	605	70.8	249	29.2	854	100%
2016	628	51	602	49	1,229	100%
2017	805	62.2	487	37.8	1,293	100%

According to the previous table, tax revenues account for most of the total domestic revenues, reaching 70.8% in 2015. In 2016 and 2017, the rate was exceptionally low due to the payment of license renewal fees by telecom and cell phone companies, knowing that the treasury has made high revenues.

Income tax:
Is a direct tax imposed on persons (whether natural or corporate persons) who engage in professions and activities (trade, services, etc.) and whose income exceeds a certain amount of money per year[64] .

Since 2004, successive Palestinian governments have made successive amendments to the Income Tax Law – with 10 amendments over 10 years. However, these amendments did not result in a change in the contribution of income tax, which amounted to 122 million USD out of 2,756 million which represent the total taxes for 2015 [65], i.e. only 4.4% of total tax revenues.

62 Ministry of Finance. General Budget Law 2017
63 Ibid.
64 Decree Law No. (8) of 2011 on the Law of Income
65 Ministry of Finance. Financial Report 2015

Amendments are often made as a result of pressure from the private sector, whose companies deduct the income tax from their employees and contractors, and transfer these funds in favor of the income tax. Most of the profits are made out of the framework of this process, but the fact that they transfer the funds has made society think that they are paying the taxes, knowing that these are paid by workers and employees. The worst cases happen when the tax is deducted from the employees and is not transferred to the tax department; tax evasion is also very high among private companies.

Amendments are always in favor of the rich:

In early June 2015, President Mahmoud Abbas passed Law no. 5 of 2015 on the amendment of the Income Tax Law no. 8 of 2011, where the amendments covered the relevant tax brackets. The tax is now collected based on the subjected income of any natural person according to the following percentages and brackets:
a. Brackets from 1 to 75,000 Shekels by 5%
b. From 75,001 to 150,000 Shekels by 10%
c. 15% for any amount that is beyond 150,000 Shekels, excluding telecommunications companies and companies holding privileges or monopolies by 20% [66]

The last amendment canceled the 20% bracket without much fuss either in terms of claiming the amendment, or objecting to it. This means that major companies pay far less than necessary, and the treasury loses many taxes from large companies. This decision was previously amended in 2014, giving full exemption to capital assets resulting from the sale of securities, in addition to exemption from capital profits resulting from the sale of properties.

As mentioned in Decree Law No. (5) for 2015:

“Deductions on the taxable income that the law provides for were more in favor of the more affluent categories of the society (corporations and senior taxpayers). This favoritism aims at giving many exemptions and deductions (deduction of expenses) to companies totaling 11 percent of their profits (2% for training, 2% for research and development, 2% for compliance with specifications, 2% for market research expenses, 2% for branch expenses, 1% for hospitality), in addition to other items such as losses due to machinery replacement, debt provisions, risks, etc. These amounts may reach millions of dollars compared to a lump sum annual exemption for ordinary individuals amounting to 36,000 Shekels.”[67]

66 Decree Law No. (5) for the year 2015 on the amendment of the Income Tax Law No. (8) for the year 2011
67 Ibid.

The contribution of the liberal professions sector to income tax revenues was only 11%, despite the large number of such jobs.[68] This is evidenced by the fact that most of lawyers' offices, engineering offices, restaurants, and doctors' clinics do not issue tax invoices for their services, and that tens of thousands of small taxpayers in the sector of liberal professions[69] have no opened tax files. Ironically, some of these offices and businesses earn more than 10,000 USD a month, but at the end of the month their tax is only 50 USD, because the tax is discretionary.

Investment exemptions also affect collection, as more than 600 large-size Palestinian companies have investment exemptions and therefore do not pay taxes. The amendments to the tax law, which are always introduced as a result of pressure and to satisfy the upper classes, serve the interests of this category and are not for development financial considerations.

Value Added Tax:
VAT is an indirect tax. It may sometimes be referred to as a type of depreciation tax and is levied in countries with a VAT system on most of the procured and sold goods and services. Ultimately, it is the end consumer who bears the cost of this tax.

VAT rose twice, the first time was early September 2016 from 14.5% to 15%, the second time was in mid-June when it became 16%. The Palestinian official version is that, according to the Paris Protocol, this percentage should not be less than 2% of what is applicable inside the Occupation State.[70] The Palestinian Authority finds itself obliged to do so; it has never protested any of the tax policy decisions in Israel affecting the Palestinian citizens. It is raising the value added tax, as it has a positive financial effect on the treasury.

The imposition of the tax policy by the Occupation authority on the Palestinians is drowning them more and more in poverty. The injustice inflicted on Palestinians as a result of that policy is reflected in the minimum wage. In Israel, it was adjusted to 1,377 USD early next year, while the minimum wage for Palestinians is 376 USD and has not been adjusted since 2013. The worst is that it is still not applied on more than 130,000 male and female workers.

This type of tax generates for the Authority around 845 million USD annually, and about 31% of the total taxes, customs duties and excise collected by the Authority for 2015, while the 2016 financial report of the Ministry of Finance did not mention the breakdown of revenues according to various tax contributions, and only noted that the total tax revenues amounted to 3,144 billion USD.[71]

68 Al Hadath Newspaper. Continuous Amendments to tax laws. http://www.alhadath.ps/article/20135/index.php
69 Status of tax systems (Morocco, Jordan, Lebanon, Palestine). Beirut: Arab NGO Network for Development (ANND) and Observatory for Social and Economic Policies. 2013.
70 Palestinian Observatory for Social and Economic Policies (Al Marsad) http://www.almarsad.ps/archives/457

The frequent rise of VAT, which automatically means higher prices of basic commodities and luxury goods, will be offset by a lower purchasing power. Ordinary and poor citizens will bear the burden of this rise, because it will result in higher prices of goods.

The only exception in applying the added value is on fruits and vegetables. Basic commodities are not subsidized, and hence the rise will include all goods and commodities. Some countries impose a lower tax on basic commodities such as rice, flour, oil and sugar, but this fair vision is not adopted by the Palestinian decision maker.

In conclusion, this rise will also reduce growth and increase tax evasion, and there are people who keep challenging taxation. Some businessmen even threaten to withdraw their lucrative investments from the country if a fair progressive tax is imposed.

5. Clearing transfers: Dependency game:

The Paris Protocol regulates the relationship of the Palestinian Authority with the Occupation State in all directions, making the Palestinian Authority areas fully dependent on the Israeli economy within a single customs envelope, with some exceptions for certain goods coming from Jordan and Egypt in limited quantities. According to experts and economists, the economy made the occupation profitable, as confirmed by the economics professor at An-Najah National University Mahmoud Abu-Rab who considered that "the agreement was concluded on a solid economic base between the Palestinian Authority and the Occupation aimed at mutual interests and mutual commercial relations. It turned the Palestinian territories into a profitable economic project for the Israeli Occupation, making the Israeli occupation of the Palestinian territories the cheapest occupation in the world."[72]

The main part of the Paris Protocol was published, but the most important annexes have been kept secret and unpublished, indicating that they have been poorly reported to the Palestinians. Various calls have been voiced by leaders of the Palestinian Authority and Fatah to amend or dispose of them. However, no one has actually dared to work do this and they still control all the aspects of the Palestinian economy. As Jaber (2010) states: "The Occupation State remained in control of the Palestinian economy, and the Palestinian Authority played the 'facilitator' role in the management of the economy, while permitting the evolution of forms of commercial 'exchange' between Israeli importers and Palestinian traders on the basis of marketing Israeli or imported products in the Palestinian market without restrictions. This was only a one-way 'exchange', from the Israeli to the Palestinian market, with a veto on the Palestinian products once for security reasons, and many times under the pretext of non-conformity to specifications.

72 Palestine News Agency. Economist explains .. What is the Paris Convention and where lies the imbalance? https://paltoday.ps/ar/post/146455

“The Protocol subsequently provided the opportunity to develop a political-commercial category that counted on trade relations with the Occupation on the one hand, and its position within the power system on the other hand, to develop commercial dealerships for certain international and/or Israeli brands and market them within a monopolistic system of imported goods. This led to the accumulation of profits in the hands of small groups integrated into commercial political relations (especially in the telecommunications sector).”[73]

The Protocol specified all the aspects that the Authority must comply with in terms of taxes, customs, specifications and standards, import and shipping places, tax and customs rates, types of products allowed for import and export, and prohibited ones. In addition, the Protocol defined the American and European standards prevailing in the Israeli market as a basis for dealing with the imported products to the Palestinian market, as well as the tax revenues that the Occupation State collects from Palestinian merchants, the customs duties levied at the ports and airports, and the restrictions on goods imported to the Palestinian market. This is the most important revenue of the Palestinian budget, known as clearing.[74]

The main items related to taxes and customs in the Paris Protocol:[75]
• Import policy: “Israel and the Palestinian Authority have a nearly identical policy regarding imports and customs. However, the Palestinian Authority can import products with customs tariffs different from those applied in Israel following jointly agreed procedures. Moreover, the Palestinian Authority can import products from Arab countries in limited quantities that are agreed upon. Arrangements will be made so that both authorities jointly manage the border in Jericho and Gaza.”
• Direct taxes: “The Palestinian Authority applies its own policy of direct taxation, including income tax on persons and companies, property taxes and municipal fees, in accordance with the policy set by the Palestinian Authority.”
• “Both parties shall collect taxes for the economic activities carried out in their respective regions. Israel transfers to the Palestinian Authority 75% of the income tax it collects from the Palestinians working in Israel.”
• Indirect taxes: “The Palestinian Authority applies a value added tax system similar to that applied in Israel, with VAT rates ranging between 15% and 16% for the Palestinian Authority.”
• Fuel: “The price of fuel in the autonomous region is determined on the basis of the purchasing price in the autonomous region and the fuel taxes in this region. The Protocol stipulates that the price of fuel cannot be less than 15% of the official price in Israel.”

3 Jaber, Firas. Privatization of Palestine. In the illusion of development: in criticizing the Palestinian development discourse. Ramallah: Bisan Center for Research and Development
74 For more information, review the Palestinian Ministry of Finance webite: http://www.pmof.ps/86
75 Al - Ayyam Palestinian Newspaper. The main points of the Paris Convention. 2012/9/10. http://www.al-ayyam.ps/ar_page.php?id=b4b997cy189503868Yb4b997c

The above points show the Occupation's almost complete control of the Palestinian Authority's tax and customs policy kept within its economic policy, with the exception of the income tax for individuals and companies in which the Occupation gave the Palestinian Authority a decision margin. However, it turned out that it is insignificant out of the total revenues of the Palestinian Authority.

There is another point related to the "legislation" of labor inside the settlements by assigning the Occupation the collection and transfer of income taxes resulting from the work of the Palestinians there, in addition to working within the Green Line, where the Occupation transfers 75% of the total income tax collected from Palestinians working there. This means that the Occupation takes 25% of the total income tax of Palestinian workers inside the Green Line and settlements, knowing that the number of Palestinian workers there amounted to 139,600 male and female workers and workers in the first quarter of 2017, including a total of 48,700 workers without work permits [76] . Those workers account for 14% of Palestinian workers, and most of them, particularly those who work in the settlements and do not have work permits to enter the Green Line, have no rights.

Palestinian labor inside the Green Line was subject to special Israeli laws and procedures that are discriminatory while claiming equality with the rest of the workers. In 1970, Palestinian workers began to move to the territories occupied in 1948 for work purposes. At that time, the so-called "Israeli Department of Payments" aiming to equalize the wages of Palestinian workers from the occupied territories with those of Israeli workers was established. This department was affiliated to the Israeli Ministry of Industry, Trade and Labor until 2009 when it was affiliated to the Ministry of the Interior. The "Israeli Department of Payments" has defined Palestinian workers as foreign workers, and therefore the Occupation State obligates employers, in accordance with resolution B/1 of the Ministerial Committee for Security Affairs of 1970, to transfer the non-net wages of Palestinian workers to the Department which deducts 23% of the workers' wages in lieu of retirement, end of service, health insurance, sick leave, imposition of parity, union fees, and income tax. Each sector has a specific financial deduction, which means that the construction sector is different from the agricultural sector, and so on[77]. According to several Palestinian officials and trade unionists, the Occupation State does not disclose the total amounts, and what it transfers is intermittent and does not include all deduction categories.

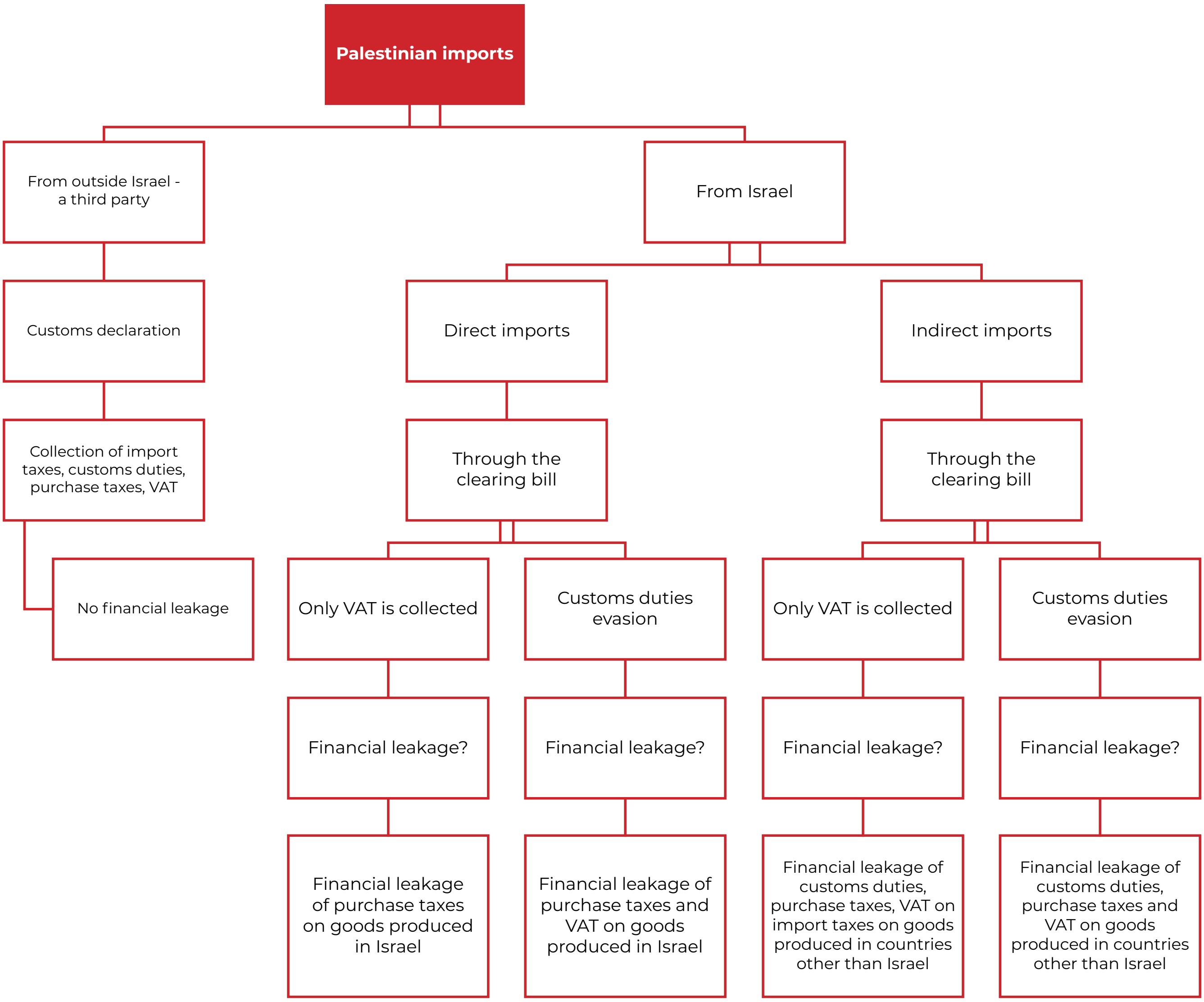
A number of studies tried to estimate the percentage of amounts deducted from Palestinian workers, and many estimates exceeded several billions of dollars. According to a recent Israeli study, "during 1970-1994, huge amounts belonging to Palestinian workers accumulated in the funds of the (Israeli) Ministry of Finance. The equality tax, which is a deduction from the salaries of Palestinian workers, amounted to 6.5 billion USD." [78]

76 Palestinian Centrial Bureau of Statistics, The Labour Force Survey Results First Quarter, 2017, http://www.pcbs.gov.ps/postar.aspx?tabID=512&lang=ar&ItemID=1923&mid=3265&wversion=Staging

77 Al-Hadath Newspaper, The occupation state steals billions of shekels from Palestinian Workers

78 Macro Center for Political Economics, 2017, The Working Conditions of Palestinian Wage Earners in Israel, http://www.macro.org.il/en/publications/?id=130

Table number (1) clarifies the movement of revenues from the Occupation to the areas under the control of the Palestinian Authority and tax and customs losses [79] :



The United Nations Conference on Trade and Development (UNCTAD) considers that making the clearing transfers under the Paris Protocol results in a financial loss of hundreds of millions of dollars annually, in addition to a commission of 3% of the amount transferred by the Occupation to the Palestinian Authority and deducted before the transfer of these funds, estimated at 50 million USD a year.[80]

79 Elkhafif, Mahmoud, and others. 2014. Palestinian Fiscal Revenue Leakage to Israel under the Paris Protocol on Economic Relations. New York and Geneva: UNCTAD: UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT.
80 Elkhafif, Mahmoud, and others. 2014. Palestinian Fiscal Revenue Leakage to Israel under the Paris Protocol on Economic Relations. New York and Geneva: UNCTAD: United Nations Conference on Trade and Development.

A study conducted by UNCTAD in 2014 estimated the financial loss resulting from the non-payment of taxes on imported goods and the smuggling of goods from Israel to the Palestinian markets at 305 million USD annually, equivalent to 3.6% of the GDP and 17% of the total revenues of the Palestinian Authority. If tax and customs evasion is dealt with, more than ten thousand jobs can be created annually.[81] This means that more than 355 million USD are taken annually by the Israeli occupation in the form of smuggled commissions, taxes and customs.

UNCTAD recommends that the size of Palestinian economic losses due to the Occupation be studied and analyzed for large sectors. We present here the tax and customs aspects, including:
• The loss of revenues of the income tax of Palestinian workers working inside the Green Line and settlements (according to the Paris Protocol, the Occupation must transfer social security and tax deductions to the Palestinian Authority).
• The loss resulting from the use of Shekel, which is estimated between 0.3 - 4.2% of the Gross National Income (GNI).
• The loss of revenues resulting from price manipulation by reducing the value of imported goods on invoices due to the lack of Palestinian control over borders and the lack of access to appropriate trade-related data.
• The loss of customs revenues as a result of rules of origin issued by the World Trade Organization and on goods made in Israel but with Israeli content below 40 percent, where it has not been applied.
• The financial loss due to a smaller tax base resulting from the depreciation of the productive base and the loss of natural resources in favor of the Occupation [82] .

Even for the aspects and sectors identified by the UNCTAD's study, as well as the other aspects and sectors not considered by the study, including the collection of the purchase tax on Israeli goods, the direct effects of the Occupation control of the Palestinian economy leads to direct and indirect losses, and the most important is the reduction of the size of taxes and customs that can be collected by the Palestinian Authority.

This is made clearer in a recent study conducted by the World Bank on the sector of telecommunications in the Occupied Palestinian Territory. In fact, the study notes that "the total loss of Palestinian mobile operators' revenues over the last three years (2013-2015) ranges between 436 million and 1,150 million USD. The loss of revenues attributable directly to the absence of the third generation is between 339 and 742 million USD, and the tax loss represented by the VAT for 2013-2015 is between 70 and 184 million USD. The direct impact represents up to 3.0% of the GDP over the last three years."[83]

81 UNCTAD: United Nations Conference on Trade and Development. 2016. Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the Occupied Palestinian Territory. New York and Geneva.
82 Ibid.
83 World Bank Group. 2016. The Telecommunication Sector in the Palestinian Territories: A Missed Opportunity for Economic Development.

This study, which shows the size of the direct loss in the telecommunications sector, does not highlight the size of the indirect losses represented by the direct tax loss on the income of companies and individuals due to the expansion of corporate business in the third generation.

Table number (3) Clearing revenues (Million USD):

Year	Clearing revenues	* Percentage of GDP	** Percentage of GDP
2015	2,054	16.6%	26.6%
2016	2,344	17.4%	29.2%
2017 (expected)	2,251	16.4%	27.1%

* According to the accounts of the Ministry of Finance.
**According to the Central Bureau of Statistics

It is worth noting that clearing revenues are double the domestic tax and non-tax revenues, i.e. the largest financial resource for the Palestinian Authority, which makes it an instrument used by the Occupation sometimes to punish the Palestinian Authority for specific political positions, as it was the case in early 2015 when the Palestinian Authority decided to join the International Criminal Court, and thus the Occupation stopped the transfer of clearing funds for four months.

Table number (4) Total tax and clearing revenues out of the total revenues[84]:

Year	Total taxes and customs duties (Million USD)	Percentage of total revenues	Percentage of GDP *	Percentage of GDP **
2015	2,659	91.5%	21.5%	34.4%
2016	2,972	83.2%	22%	37%
2017	3,056	86.2%	22.3%	36.8%

* According to the accounts of the Ministry of Finance.
**According to the Central Bureau of Statistics

The revenues collected by the Palestinian Authority from taxes and customs duties represented 91.5% in 2015, i.e., they depended fully on the Palestinian taxpayer to finance their activities and expenditures. Although the percentage declined in 2016 and 2017 due to one-time transfers by the Occupation and license fees of telecommunications companies, this decrease is temporary and the percentage will go back to its previous levels.

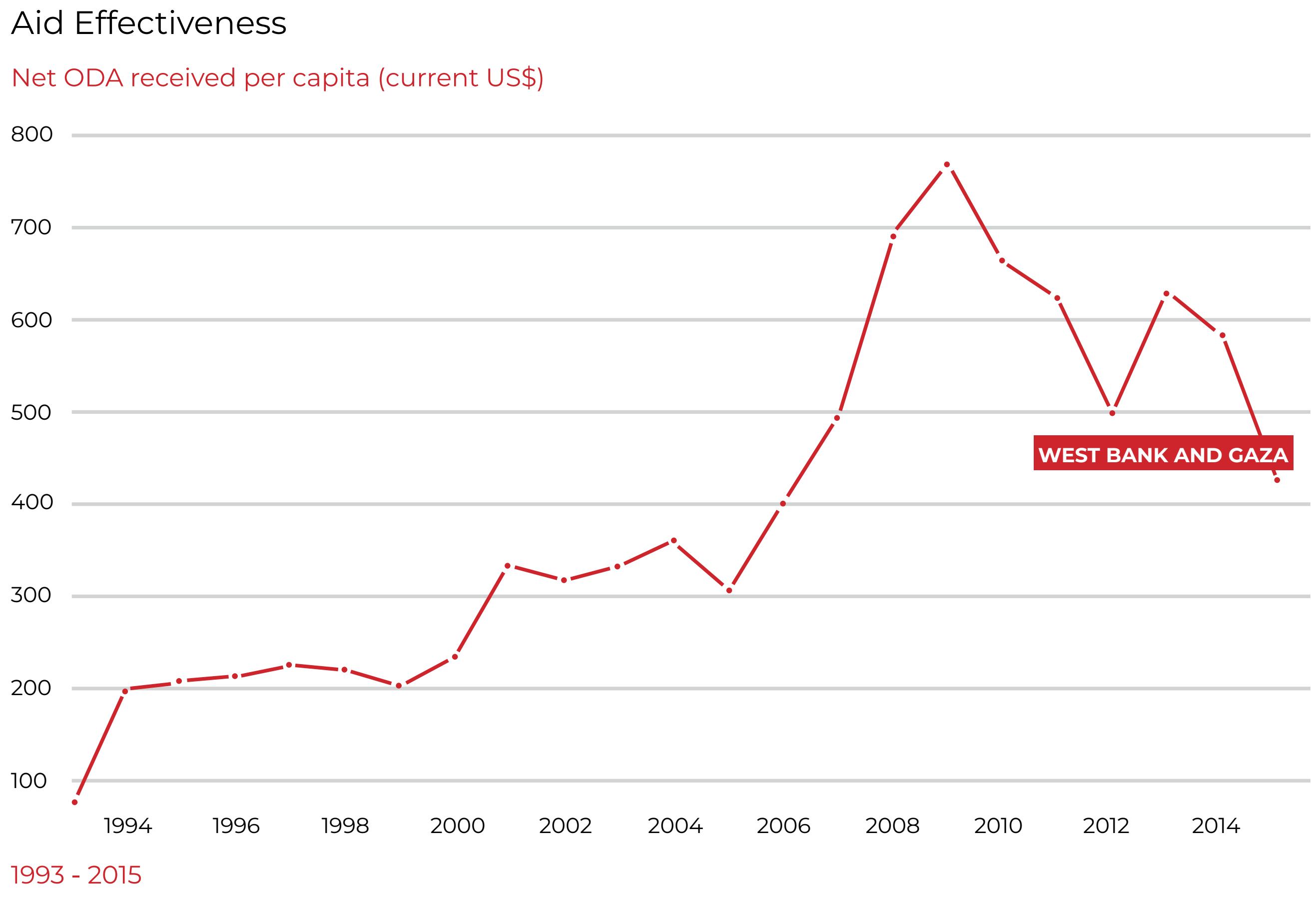
84 The calculations made by the researcher are based on the sources and reports of the Ministry of Finance and the Palestinian Central Bureau of Statistics.

The tax base out of the total GDP amounts to 22% according to the Ministry of Finance, and according to the Central Bureau of Statistics, it varies between 34% and 37%, which is a very large percentage. The Palestinian citizen bears most of the burden of taxes and customs; individuals also bear the biggest burden versus companies. In comparison with other countries, the average tax burden in Jordan is 16%, 19% in Egypt, 20% in Tunisia, and 21% [85] in Morocco. Therefore, the tax burden in Palestine is very high compared to these countries .

6. Public budget and tax revenues:

The public budgets of the Palestinian Authority rely on three main resources/revenues: the taxes collected locally, the taxes and customs duties transferred by the Occupation State, and international aid. After the end of Salam Fayyad's term, international aid dropped below 2009 record levels.

Figure (2): Net ODA per capita [86] :

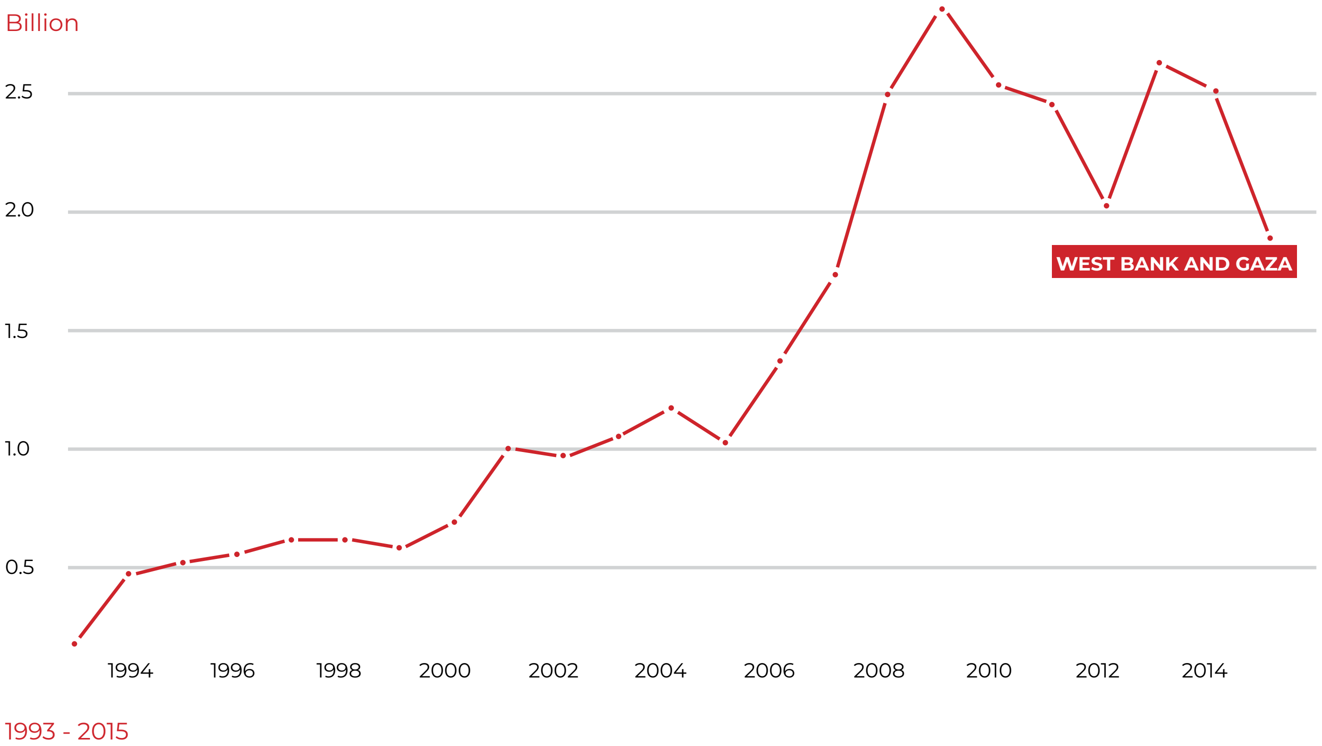


The previous figure shows that in 2009, the net ODA per capita stood at 736 USD, which was the highest in the world, but then dropped, to 423 USD in 2015.

85 Ibid.

86 World Bank. Data. Link: http://data.worldbank.org/topic/aid-effectiveness?locations=PS

Figure (3): Value of received external development aid [87] :



The previous figure shows that in 1993, Palestinians received 178 million USD in foreign aid, while in 2009 this amount increased to 2,828 billion USD or 16 times more. This "inflated" the government's budget making it dependent on this aid. However, this aid declined in 2015 to 1.873 billion USD.

In general, foreign aid has been distributed to support the Palestinian Authority's budget and salaries, specifically spending on security and security services, which have taken the biggest share of all the Palestinian Authority's budgets for various years.

If we make a simple comparison with the Budget Law of 2017, we can show the Palestinian Authority's expenditures from the various revenues collected locally and through clearing transfers with the Occupation and external aid.

87 World Bank. Data. Link: http://data.worldbank.org/indicator/DT.ODA.ODAT.CD?locations=PS

Table (5): Allocation of the various institutions according to 2017 budget [88] :

Nb	Institution	Budget allocation in Shekel	% of the total budget
1.	Ministry of Interior and National Security	4,160,042	25.5%
2.	Ministry of Education and Higher Education	3,117,930	19.3%
3.	Ministry of Health	1,734,572	10.6%
4.	Presidency	273,929	1.68%
5.	Ministry of Agriculture	158,028	0.97%

The table shows that the Ministry of Interior and National Security acquires most of the budget – slightly more than a quarter, knowing that the rest of the items spent on security will increase the share of security significantly and remarkably, while the Ministry of Education and Higher Education gets 19.1% of the budget; most of these allocations are for salaries and wages and less for development expenditures which amount to 8.7% of the Ministry's budget. Health receives only 10.6% of the budget, but when the value of development expenditures for the health sector is audited, it turns out that it does not exceed 0.45%.

The paradox is most evident when analyzing the budget of the Palestinian Presidency, which receives much more money than some ministries and bodies. The share of the Presidency of the total budget is 1.68% compared to the Ministry of Agriculture, which only receives 1%. This explains the declining role of agriculture in operation and production, making its contribution to the GDP 3.3% in 2015 [89] .

Although the Palestinian Authority collects large revenues through various types of taxes and customs, the Authority's budget suffers from a deficit due to the decline of external aid, as explained above; thus, the Authority opted for borrowing from international financial institutions, banks and even local markets. The total domestic and external debt of the Palestinian Authority amounts to more than 4 billion USD: about 1.5 billion in domestic debt, mostly for banks, about 1 billion in loans and external debt [90] , and about 1.5 billion in pension payments. The public debt accounts for 30% of the GDP, according to the Ministry of Finance, while it accounts for 50% of the GDP according to the Palestinian Central Bureau of Statistics, which estimated 2016 GDP at 8 billion USD [91] , whereas it was 13.5 billion USD according to the Ministry of Finance!

88 Ministry of Finance, Budget Law 2017

89 Palestinian Central Bureau of Statistics, 2016, Performance of the Palestinian Economy 2015

90 Al-Iqtisadi, How much is the public debt of the Palestinian Authority at the end of 2016

91 PCBS, Press Release, http://www.pcbs.gov.ps/postar.aspx?tabID=512&lang=ar&ItemID=1815&mid=3265&wversion=Staging

7. Conclusion:

Approaching the Palestinian tax system means approaching a long history of hegemony, colonialism and occupation control over all the aspects of the Palestinians' life. Taxes have been used as important tools for oppression, punishment and deprivation. Taxes were also used to confiscate Palestinian lands and properties due to accumulating taxes, and this is well known for those who lived under military occupation.

Legislations and laws mean that power and hegemony relations have matured to the level of practicing hegemony and domination through various tools and means, including within a legal context or economic instruments, but any analysis and dismantling of these tools and practices reveal the extent of direct racism and how these are used to serve the direct military occupation.

The creation and existence of a National Palestinian Authority did not prevent the Occupation control which took new forms, including through the bad economic protocol, which allowed the Occupation to keep looting and impoverishing the Palestinian society and prevented the development of agricultural, industrial and even commercial means of production. The "legitimization" of domination and exploitation tools through intermediate channels has reduced the sense of contact with these tools, but without changing their content and impact, which we still see before us.

The adoption by the Palestinian Authority of free market options and the pursuit of the principles of economic liberalism have led to major negative effects, the most important of which is the decline in the size of productive sectors, the increase of commercial dealerships with the Occupation, and the reliance on intensive taxes to spend on security and salaries.

The fact that the Palestinian society is under occupation on the one hand and the existence of an authority operating under economic agreements with the Occupation and the adoption of liberal policies on the other hand resulted in the emergence of a stressed and distorted socio-economic reality; its most serious results are the erosion of the social and economic structures that have for decades resisted against the Occupation, and strengthening steadfastness in favor of new structures based mainly on monopolies, and the direct commercial and economic relationship with various parties within the Occupation in order to win and achieve wealth, unless there is interest in reconsidering the previous economic system as a whole by introducing and keeping a large part of it within the Palestinian Authority's institutions.

The present study tries to prove that taxes are a major tool to control the Palestinian people, its resources, economy and its resilience. The Occupation loots hundreds of millions every year, in addition to blocking several billions, whereas the Palestinian Authority tries to collect the highest possible revenues from the poor and middle classes to spend on very large agencies that protect its existence, while aggravating the vulnerability of Palestinian society under the pressure of these policies and practices.

Therefore, it is impossible to talk about reforming the tax system or the tax administration without dismantling the colonial system that is behind this system, and without adopting a national development vision to lead and direct this tax system and control the spending aspects of these taxes.

8. Recommendations:

• Cancel/suspend the Paris Protocol which defines and restricts the fiscal and tax framework of the Palestinian Authority, which in turn implements it on the Palestinian citizens. The abolition of the Protocol will give the Authority the possibility of developing laws and regulations based on the interests and needs of the Palestinian society, taking into account the economic system directed towards social justice, while seeking to break dependency on the occupation.

• Abolish the aforementioned protocol and acquire an economic freedom that should be based on controlling the crossings to the West Bank and the Gaza Strip and exercising sovereignty over them so that the Palestinians can impose and collect customs duties and impose Palestinian laws and specifications.

• Review and re-establish social and economic policies based on social justice, including getting rid of the interventions of the World Bank and the International Monetary Fund, and the various prescriptions provided by these international parties. This includes tax collection, spending/distribution through the services provided by the Authority, development projects, i.e. the budget, which is currently based on the provision of minimum services, and the satisfaction of elites and institutions at the expense of building a development vision working for citizens, and taking into account the need to direct budgets to specific sectors/services and/or marginalized areas.

• Promulgate Palestinian legislations and laws that replace Israeli, Jordanian, and British laws, decrees and military orders, so that these laws are modern and based on the principles of freedom from subordination, social justice, equality and equity.

• Develop a tax policy that is not only based on collection and financing the public budget, but also deals with taxation within a developmental system that seeks to develop marginalized areas, provides quality services to all citizens, and works to support the national productive sectors.

• Treat tax evasion, specifically the evasion of Palestinian merchants from submitting clearing bills. A Palestinian presence and supervision of border crossings or an electronic control system on goods and imports coming through border crossings can be a solution to this issue of evasion.

• Stop the deduction of the commission charged by Israel, i.e. 3% of the value of the amounts transferred by the Occupation authority and deducted before transferring these funds.

• Require the receipt and transfer of the full income tax collected from Palestinians working within the Green Line.

• Establish a system to prevent Palestinian workers from working inside the settlements; in addition to the political and national reasons for the need to stop working in the settlements, the income tax on the salaries of most of the workers inside the settlements is not transferred due to the evasion of employers and intermediaries, or simply because they are illegal workers.

• Treat the funds accumulated by the (Israeli) Ministry of Finance between 1970 and 1994; the equality tax, which is a deduction from the salaries of Palestinian workers, amounts to 6.5 billion USD. It needs to be addressed through international interventions with an honest review of these funds and accumulated interests.

• Reduce the fuel tax, whereby the Protocol stipulates that the price of fuel in the areas of the Palestinian Authority should not be less than 15% of the price in Israel; after calculating the huge difference in income and in the available system of transportation, the Palestinian citizen pays a huge price for fuel consumption.

• Exempt basic goods and services from VAT, specifically consumer goods as it is the case in some Arab countries, due to their role in helping poor families to provide basic material without additional costs.

• Fix several brackets for the value added tax, so that there is a hierarchy in the tax rates according to their importance in the consumption basket of Palestinian families, i.e. 0% for some goods, 5% for essential goods, 10% for important goods, and up to 20% for luxury goods.

• Control and pay the value added tax from merchants and service providers, because the size of the evasion of these taxes is large, that is, the citizen pays the tax in the end to the merchant/service provider, meaning that there is a need to develop the penalties to be deterrent and commensurate with the size of the tax evasion.

• Apply the principle of progressive income tax like other countries so that the highest bracket reaches 35% of the income earned on corporate profits, specifically monopolies, holding companies and banks.

• Amend the law to include tax brackets of 20%, 25% and 30% according to the sizes of profits realized by companies in ascending order.

• Amend the law to include the income earned by individuals resulting from the distribution of a special remuneration for corporate profits; this may be conditional on the fact that the remuneration shall be more than a total of three salaries annually.

• Agricultural companies should remain within the 10% bracket given the national productive value of their work regardless of the value of profits earned by these companies.

• The business sector contributes by 11% to the total income tax revenues; this percentage must be gradually increased to represent the size of the sector's entry, which includes large income generating activities such as doctors, lawyers, accountants, engineers and contractors.

• Tax settlements should be based on clear rules and fair standards, and there should be no accumulated record of tax evasion for individuals or companies.

• Sources and references:

English references:

1. Elkhafif, Mahmoud, and others. 2014. Palestinian Fiscal Revenue Leakage to Israel under the Paris Protocol on Economic Relations. New York and Geneva: UNCTAD: UNITED NATIONS CONFERENCE ON TRADE AND DEVELOPMENT.

2. UNCTAD: United Nations Conference on Trade and Development. 2016. Report on UNCTAD assistance to the Palestinian people: Developments in the economy of the Occupied Palestinian Territory. New York and Geneva.

3. World Bank Group. 2016. The Telecommunication Sector in the Palestinian Territories: A Missed Opportunity for Economic Development.

4. World Bank. Data. Link: http://data.worldbank.org/indicator/DT.ODA.ODAT.CD?locations=PS

5. World Bank. Data. Link: http://data.worldbank.org/topic/aid-effectiveness?locations=PS

Arabic references:

١. الاقتصادي. كم بلغ الدين العام على الحكومة الفلسطينية حتى نهاية ٢٠١٦؟. الموقع الإلكتروني.

٢. جابر، فراس. ٢٠١٠. خصخصة فلسطين. في وهم التنمية: في نقد الخطاب التنموي الفلسطيني. رام الله: مركز بيسان للبحوث والإنماء.

٣. جريدة الأيام الفلسطينية. النقاط الرئيسية في اتفاقية باريس. ٢٠١٢/٩/١٠. الرابط الإلكتروني:
http://www.al-ayyam.ps/ar_page.php?id=b4b997cy189503868Yb4b997c

٤. الجهاز المركزي للإحصاء الفلسطيني. ٢٠١٦. أداء الاقتصاد الفلسطيني ٢٠١٥.

٥. الجهاز المركزي للإحصاء الفلسطيني. ٢٠١٧. الإحصاء يعلن النتائج الأساسية لمسح القوى العاملة للربع الأول ٢٠١٧. الرابط الإلكتروني:
http://www.pcbs.gov.ps/postar.aspx?tabID=512&lang=ar&ItemID=1923&mid=3265&wversion=Staging

٦. الجهاز المركزي للإحصاء الفلسطيني. بيان صحفي. الرابط الإلكتروني:
http://www.pcbs.gov.ps/postar.aspx?tabID=512&lang=ar&ItemID=1815&mid=3265&wversion=Staging

٧. حالة الأنظمة الضريبية (المغرب، الأردن، لبنان، فلسطين). ٢٠١٣. بيروت: شبكة المنظمات العربية غير الحكومية للتنمية، ومرصد السياسات الاجتماعية والاقتصادية.

٨. صحيفة الحدث. التعديلات المستمرة على القوانين الضريبية. الرابط الإلكتروني:
http://www.alhadath.ps/article/20135/index.php

٩. صحيفة الحدث. دولة الاحتلال تسرق مليارات الشواكل من العمال الفلسطينيين والجهات المعنية عاجزة عن استرداد حقوقهم. رابط إلكتروني.

١٠. عبد الكريم، نصر، وآخرون. ٢٠١٥. دراسة تقييمية لقانون ضريبة الدخل لعام ٢٠١١ وتعديلاته من منظور العدالة الاقتصادية والاجتماعية. رام الله: مؤسسة مفتاح.

١١. عبد المنعم، محمد. ١٤ دولة أفريقية ملزمة بدفع ضرائب لفرنسا. ساسة بوست. الرابط الإلكتروني:
https://www.sasapost.com/france-colonial/

١٢. فرانسيس مورلابيه وجوزيف كولينز. ١٩٨٣. صناعة الجوع. الكويت: المجلس الوطني للثقافة والفنون والآداب.

١٣. قرار بقانون رقم (٥) لسنة ٢٠١٥م بشأن تعديل قرار بقانون ضريبة الدخل رقم (٨) لسنة ٢٠١١م.

١٤. قرار بقانون رقم (٨) لسنة ٢٠١١ بشأن قانون الدخل.

١٥. محمد، جبريل. ٢٠١٠. المسألة الزراعية في فلسطين: من الالتزام العثماني إلى الاستيطان الصهيوني. رام الله: اتحاد لجان العمل الزراعي.

١٦. مرصد السياسات الاجتماعية والاقتصادية. ما هي ضريبة القيمة المضافة. الرابط الإلكتروني:
http://www.almarsad.ps/archives/457

١٧. مركز ماكرو للاقتصاد السياسي. ٢٠١٧. ظروف عمل العاملين بالأجر من الفلسطينيين في إسرائيل.

١٨. الموسوعة الفلسطينية. الضرائب. الرابط الإلكتروني:
http://www.palestinapedia.net/%D8%A7%D9%84%D8%B6%D8%B1%D8%A7%D8%A6%D8%A8/

١٩. الموقع الإلكتروني لوزارة المالية. الرابط الإلكتروني:
http://www.pmof.ps/86

٢٠. وزارة المالية. التقرير المالي ٢٠١٥.

٢١. وزارة المالية. التقرير المالي ٢٠١٦.

٢٢. وزارة المالية. قانون الموازنة العامة ٢٠١٧.

٢٣. وكالة فلسطين اليوم الإخبارية. اقتصادي يوضح.. ما هي اتفاقية باريس وأين يكمن الخلل؟. الرابط الإلكتروني:
https://paltoday.ps/ar/post/146455