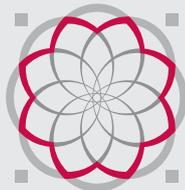


Taxes and Social Justice:

Cases from 4 Arab Countries



annd

Arab NGO Network for Development
شبكة المنظمات العربية غير الحكومية للتنمية

منصة العدالة الاجتماعية
Social Justice Platform



المركز المصري للحقوق الاقتصادية والاجتماعية
Egyptian Center for Economic & Social Rights



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Social and Economic Policies Monitor (Al Marsad)



ANND works in 12 Arab countries with 9 national networks (with an extended membership of 250 CSOs from different backgrounds) and 23 NGO members.

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Introduction

Inequality, poverty, unemployment, and marginalization are on the rise in the Arab Region, despite the positive picture painted by some mainstream economic indicators prior to the popular uprisings in Arab countries. International studies have shown that rising inequality, particularly economic, has a negative impact on economic growth, efforts to combat poverty, and the implementation of social rights of people. It also has a negative impact on social cohesion and political stability. * Thus, addressing inequalities is a key step for the advancement of development efforts and the implementation of the Sustainable Development Agenda 2030.

The inequality gap in the Arab Region is a result of current economic and social choices, which led to a decrease in the role of the state in drawing up economic policies and providing basic services to all citizens, through the privatization of services and market and financial liberalization. In addition, economic policies have tended towards expanding the services, trade, and rentier sectors, at the expense of productive sectors with real and sustainable added value.

The decline in tax revenues, due to policies aimed to attract investments, in addition to the decline in custom revenues, as a result of trade liberalization, led to an increased need for foreign funding, which, in turn, resulted in debt accumulation. Public debt service has become a major part of the budget of many Arab countries, leading to the adoption of austerity measures, with a negative impact on social spending and public services, and the increase in the inequality gap.

Hence, the Arab NGO Network for Development (ANND) adopted an approach calling for the necessity of searching for new development paradigms, which would contribute to the achievement of social justice and are based on building productive national economies with high competitive capacities, the ability to generate job opportunities, and which adopts distribution and redistribution mechanisms to ensure justice among citizens and maintains environmental and natural resource sustainability.

Tax systems are some of the main distribution mechanisms. However, taxation policies adopted in the Arab region suffer from clear structural and financial shortcomings, which stand in the way of achieving the core objectives of taxation. These systems generally aim to reduce tax burdens on companies and increase them on consumers, through value added taxes, or to provide concessions and tax exemptions. Tax systems in the Arab region are also characterized by weak tax collection and by tax evasion, which is partially related to the low capacity of related institutions and the growth of the informal economy for reasons related to “open” market policies, neoliberal globalization, the youth bulge, rural to urban migration, and large waves of immigration, in addition to the nature of rentier economies.

* UN DESA (2013): Inequality Matters: Report on the World Social Situation 2013. New York. www.un.org/esa/socdev/documents/reports/InequalityMatters.pdf and IMF (2014): Fiscal Policy and Income Inequality. Washington, D.C. (IMF Policy Paper, 23 January 2014). www.imf.org/external/np/pp/eng/012314/2014.pdf



These facts highlight the basic need for a qualitative shift in tax systems and their philosophy in Arab countries, to achieve four main functions that must not be overlooked or divided up. They are: redistribution to achieve justice among citizens; stimulating economic activity and contributing to directing investments; providing local financial resources for development and the public budget; and enhancing citizenship. The tax system has a pivotal role in the restructuring of economic policies to encourage investment in strategic sectors, based on the priorities of national policies adopted to support real and productive economies in sectors with added value, competitive capacities, and ability to generate jobs. Tax policies are also a mechanism for mobilizing domestic resources to reduce debt, on one hand, and direct spending towards social services necessary for human development and social justice, on the other.

Civil society organizations need to actively participate in tax policy development and monitoring their impact on human rights, through dialogue with stakeholders and policy-makers in the Arab Region. In this context, ANND developed a research project to look at tax systems in Egypt, Jordan, Lebanon, and Palestine, in addition to a regional report highlighting cross-cutting issues related to the inter-linkage between taxes and equality in Arab countries. The research presented in this regional report was accompanied by national and regional dialogues and workshops aiming to expand interest in tax policies among CSOs and the establishment of a regional coalition on tax justice that seeks to open up channels to engage with international financial institutions, governments, and concerned regional organizations.

Finally, special thanks to all the researchers who contributed to this work, which we hope will be a serious intervention to push for rethinking tax policies in favor of sustainable human development in the Arab Region.

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Arab NGO Network for Development

01

EGYPT

Rise and fall of fiscal justice after January's Revolution

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Introduction

Following the January 25 Revolution, fiscal policies were relatively unclear, reflecting the political momentum of 2011, and the conflict between the revolution's call for just policies and the business community's resistance to such policies.

As Finance Minister from 2004 to 2011, M. Youssef Boutros Ghali had implemented a set of fiscal policies, reducing custom fees, unifying income taxes at 20%, and passing the real estate tax law. He planned to turn the sales taxes' system into Value Added Tax (VAT).

Ghali built his fiscal philosophy around alleviating businessmen's fiscal burden to encourage them to pay their taxes. He believed that tax liability will stimulate the investments they make thus indirectly affecting gross tax revenue.

Ghali's fiscal philosophy was severely attacked by anti-Mubarak currents which gained political momentum after the fall of the former president in 2011. In this paper, I will go through fiscal policy changes in the years following the revolution and will determine how close or far they are from social justice goals advocated for by January's revolution.

The paper divides the fiscal policies' evolution into different phases according to the legislations implemented during each fiscal year after January's revolution and analyses these policies' effect on the country's financial situation through the available data on these years' final accounts.

2011 - 2012 a semblance of fiscal justice to calm down the revolution

In 2011, the state wanted to calm down angry popular crowds which became active during the January revolution, by implementing a set of economic policies: ending the unified income tax policy responsible for imposing the same fiscal burden on both middle-income households and big businessmen.

In the first budget adopted after the revolution for 2011 – 2012, it announced an additional 5% income tax on individuals and companies whose annual income exceeds 10 million Egyptian pounds (EGP).¹

Also, for the first time, the state subjected speculations in the stock market to taxes, namely a 10% capital gains tax (CGT) on shares and listed companies' gain distribution.²

¹ Law no. 51 of 2011 on the State's General Budget for the Fiscal Year 2012-2011 and on the amendment of some provisions of the income tax law

² Egypt budget targets poor, introduces capital gains tax, Reuters, June 2011 goo.gl/aoqmZ1

Ghali's real estate tax law no. 196 of 2009 gained a bad reputation and was faced with strong opposition even under Mubarak, pushing the state to stop its enforcement in 2011 before making some amendments later.³

In parallel with raising low governmental salaries by adopting new rewards and incentives in the 2011 – 2012 budget, the state indirectly increased the citizens' revenues by alleviating the fiscal burden of middle-income households through raising the tax exemption ceiling from 9000 to 12 000 EGP.⁴

Fiscal modifications did not all benefit low-income households because during that year, the government also extended sales taxes, increasing cigarette taxes from 40 to 50%.⁵

The state's aim was to fix the budget deficit which it had decided to contain in 2011- 2012 after it increased spending on salaries during that same year.

Amid these changes, the state started negotiations with the International Monetary Fund (IMF) to get a loan, sparking controversy about a possible IMF interference in Egypt's fiscal policies.

However, the agreement didn't see the light because, at that time, the governing military council opposed this step.⁶ Back then, Finance minister Samir Radwan denied that the loan was subject to conditions in contraction with the fiscal policies the state had adopted during the 2011-2012 period and which he considered as "expansionist" policies.⁷

However, fiscal policies with a social aspect adopted in the first budget after the revolution were faced with clear internal resistance. The best example is that the state wanted to postpone the adoption of the stock market tax for fear of arousing businessmen's anger.⁸

The new 12 000 EGP tax exemption ceiling was not implemented⁹ because according to journalistic reports, the authorities were opposed to this measure when the final version of the 2011-2012 budget was adopted.¹⁰

³ Mohsen Abd El Razeq, Confusion in "real estate taxes" after the PM froze the enforcement of the new law, Al Masri Lyom, May 2011 goo.gl/5O7Wxd

⁴ Ahmad El Sayyed El Najjar: raising the tax exemption ceiling to 000 12 EGP: a decision taken by Samir Radwan and not by the current government, Al Bidaya, February 2013, goo.gl/dCUIUh

⁵ Law no. 49 of 2011 on the amendment of some provisions of the general sales tax law no. 11 of 1991

⁶ Egypt says will not need IMF, World Bank funds, Reuters, June 2011 goo.gl/t2mQl4

⁷ Samir Radwan in a comprehensive dialogue about Egypt's economy after the revolution, Wael Jamal and Mirit Majdi, El Chourouq, April 2012, goo.gl/cZ4Wnd

⁸ Same source

⁹ Ahmad El Sayyed Al Najjar: raising the tax exemption ceiling to 000 12 EGP: a decision taken by Samir Radwan and not by the current government, Al Bidaya, February 2013, goo.gl/dCUIUh

¹⁰ The high cost of living is devouring salaries and the government backs away from raising the tax exemption ceiling goo.gl/juYdAG

At the beginning of that year, when Kamal Al Jazouiri became the Prime Minister of the transitional authority which remained until the 2012 presidential elections, the government submitted an official request to the IMF to get a \$3.2 billion-dollar loan. But this time, the parliament was the one to oppose this measure. The first post-revolution council, mostly made up of the Islamist movement, strongly disagreed with the government appointed by the army on many issues other than the IMF's involvement, pushing the parliament to call for the dissolution of the government.¹¹

Final accounts' highlights 2011- 2012

The State's tax revenues for 2011-2012 accounted for around 68.3% of state revenues, reflecting the decline in tax revenues' share of revenues when compared to the 72.4% registered in the previous year, according to the final accounts of both years.

This came at a time when the deficit of the total assets' uses, revenues, loan proceeds, and asset sales in 2011-2012 grew by some 22% compared to the previous year.

The final account estimated tax revenues at some 207 billion EGP, an increase of only 15 billion compared to 2010-2011 (around 7.8%), less than the average inflation rate for the same year, estimated at 8.6%, meaning that the real tax revenues decreased by at least 0.8% approximately.

The previous indicators reflect the increasing financial deficit and the urgent need for a tax policy of progressive nature that would be adopted for many years until it bears fruit and that would contribute to increasing state revenues and covering the state's increasing expenditure. Nevertheless, fiscal reforms which started in 2011- 2012 amid the revolution's momentum did not last long.

2012-2013 the new democracy between justice and its antonym

The controversy around the IMF's loan continued during 2012. Opposition currents prospered in the open democratic space that emerged after the revolution and warned against the dangers of finding agreements with infamous international institutions like the IMF known for its long history of unjust financial policies.

In April 2012, the IMF published a statement in which it called political forces in Egypt to agree on an economic reform program before getting the loan.¹²

As soon as he became president and took control of the legislative authority after the dissolution of parliament, Mohammad Morsi who belonged to the Islamist movement, made extensive amendments to the income tax law.

¹¹ Egypt and the IMF in a few lines, Nivine Kamel, El Chourouq, July 2016, <http://bit.ly/2hlo0Ln>

¹² The IMF asks political forces to agree on the 2013-2012 budget before receiving the loan, El Masri El Yawm, April 2012

Amendments included codifying progressive brackets adopted under the military council and reviving the idea of a possible imposition of taxes on stock markets activities.¹³

Amendments related to stock market activities came after a tax dispute between the tax authority under Morsi and businessman Nassef Sawiris.

This dispute was about Orascom Construction Industries (OCI S.A.E) - presided over by Sawiris - selling its cement section to Lafarge through the stock market in 2007. This deal that the business community usually calls an acquisition is supposedly subject to taxes, but Sawiris made the acquisition by selling his company's money market securities to the French company as if it was a regular sale of shares.

Orascom defended its legal position by considering that selling the shares through the stock market exempted it from the tax burden. The company and the tax authority then engaged in a highly- publicized public legal dispute.

Amid these circumstances, Morsi's tax amendments aimed at imposing a 10% lump-sum tax on revenues resulting from the sale of companies' shares or stocks, including different purchase and trade operations, in any acquisition exceeding 33% of the company's capital or voting rights.

By virtue of the law, acquisition through multiple operations were to be considered as one deal if it is made by the same buyer or people related to him within 12 months as of the first purchase date. Taxable profits are calculated based on the difference between the purchase price or nominal value as stated in the corporate charter and the acquisition price, without any exemption stipulated for in this law or any other law.¹⁴

In addition, amendments imposed the same taxes on profits made by natural or legal people at each Initial Public Offering (IPO) in the secondary market.¹⁵

In the amendments he made, Morsi did what the previous government couldn't do. He raised the personal annual income tax exemption ceiling for those whose income is below 12 000 EGP per year instead of 9000 EGP.¹⁶ But this exemption was only implemented after Morsi's fall in July 2013.¹⁷

¹³ Law no. 101 of 2012 on the amendment of some provisions of the income tax law no. 91 of 2005 and adopting some tax concessions, contributing to social justice and reducing tax evasion cases

¹⁴ Same reference

¹⁵ Same reference

¹⁶ Same reference

¹⁷ The tax authority starts to implement additional income tax

Morsi's legislation on trading went through a second modification of the stamp duty according to which a proportional 1 per 1000 stamp duty was imposed to the buyer and to the seller for the sale or purchase of Egyptian or foreign securities.¹⁸ The article on imposing this tax was repealed in a new legislative amendment in 2014 after Morsi's fall.¹⁹

While previous amendments paved the ground for social justice, the government was also preparing a sales taxes' extension, a tax burden known for obstructing social justice because it blindly imposes consumption taxes without considering the consumer's income or the tax they deserve to pay.

Finance minister under Morsi Momtaz Said announced that the government was considering replacing the sales tax with the VAT, a measure that will later be adopted to extend consumption taxes.

But what Morsi tried to do on the ground was extend to a wide range of products a sales tax announced by the state and retracted a couple of hours later.²⁰

According to newspapers, the new sales tax was part of an understanding between the state and the IMF to obtain the loan for which negotiations were still ongoing at that time knowing that under Morsi, negotiations were about a larger \$4.8 billion-dollar loan.²¹

Morsi's fourth tax law was related to real estate taxes which sparked an important controversy as soon as former finance minister Ghali suggested them. Perhaps what distinguishes Morsi's law the most is that it raised the tax exemption ceiling for housing real estate properties from 500 000 (market value per housing unit) to 2 million EGPs, minimizing opposition to the law.²²

Final accounts' highlights 2012-2013

Taxes' share of total state revenues increased in 2012-2013 compared to the previous year and reached 71.6% but remained under its pre-revolution level.

This increase came at a time when the deficit in assets' uses, revenues, loan proceeds and assets' sales increased by some 53% compared to the previous year, reaching around 311 billion EGP.

That year, tax revenues reached 251 billion EGP, a 21.3% increase (44 billion EGP) compared to 2011-2012, and a 14.4% increase in real tax revenues compared to the same year's average inflation rate.

¹⁸ Law no. 9 of 2013 on the amendment of some provisions of the stamp duty law no. 111 of 1980 amended by law no. 104 of 2012

¹⁹ Law no. 53 of 2014 on the amendment of some provisions of the income tax law no. 91 of 2005 and the stamp duty law no. 111 of 1980.

²⁰ The tax was imposed in law no. 102 of 2012 on the amendment of some provisions of the general sales tax law no. 11 of 1991 which was later repealed according to article 1 of law no. 58 of 2014.

²¹ Morsi adopts a tax increase on electricity, gas, cigarettes and sparkling water, Amir Haydar, Mohammad El Saadani, Lubna Salah El Dine, Abd Al Aziz El Saadani, El Masri El Yawm, December 2012, <http://bit.ly/2i9XLI7>

²² Law no. 103 of 2012 on the amendment of some provisions of the built-up area property tax law no. 196 of 2008

2013-2014 tax on rich people and a constitution for justice

After the developments of the 30th of June 2013, the IMF declared that any negotiations on the loan will be postponed until Egypt regains its political stability. Back then, the IMF's loan wasn't urgent as generous assistance flowed from the Gulf into Egypt after the army had ousted Mohammad Morsi.

The 2014 constitution adopted progressive taxes and article 38 stipulated the following: "individual income taxes shall be progressive, with multiple brackets and in accordance with the taxpayers' capacities." This showed that after the fall of Mohammad Morsi's regime, the new authorities preferred fair fiscal policies.

Before presidential elections, the interim president implemented a new income tax known as the "the rich people's tax" consisting of a three-year long 5% annual and temporary additional tax on all those whose income exceeds 1 million EGP, whether they are natural or legal people (i.e. entities like companies).²³

Nevertheless, the transitional authority also extended sales taxes to close the budget deficit, exploited its legal right to cigarettes' price fixing and adopted ministerial decrees to increase tax collection.²⁴

2014-2015 el-Sisi following in Morsi's steps

As soon as he became president and controlled the legislative authority while the parliament was still crippled, el-Sisi amended the income tax.

Among the new fiscal amendments adopted by el-Sisi was imposing taxes on the revenues of independent workers and professionals in the non-commercial sector abroad, knowing that Egypt was the heart of such professional activities.²⁵

In an attempt to impose taxes on the stock market, El-Sisi's fiscal amendments imposed taxes on the distribution of companies' profits to shareholders, capital gains made from trading securities, and profits made by investing in foreign securities.²⁶

²³ Law no. 44 of 2014 on imposing an additional temporary income tax

²⁴ The Ministry of Finance adopted decision no.30 of 2014 and 265 of 2014 on the increase of cigarette prices which are essential to calculate the sales' tax

²⁵ Law no. 53 of 2014 on the amendment of some provisions of the income tax law no.91 of 2005 and the stamp duty law no. 111 of 1980

²⁶ Same reference

In April 2015, the ministry of Finance unveiled the executive regulations of the law on the income tax amendments passed by Morsi. According to Reuters, the then minister of Finance said that imposing a 10% tax on stock trading and the distribution of companies' profits was "the lightest form of taxes."²⁷

But in parallel with the lightest form of taxes on the stock market, trading dropped heavily, pushing the council of ministers to freeze the part related to taxing speculation for two years almost a month after it was passed and to prolong this measure for 3 additional years in November 2016.

Final accounts' highlight 2013-2014

In 2013-2014, taxes' share of revenues decreased to around 56.9% although tax revenues increased to around 260 billion compared to 251 billion EGP.

However, the decreasing taxes' share of revenues might reflect the important increase in the flow of grants from around 520 billion EGP in 2012-2013 to around 958 billion EGP in 2013- 2014 resulting from strong Gulf support to Egypt after the fall of Mohammad Morsi, knowing that this support was not linked to fiscal policy amendments as was the case with the IMF loan.

When comparing the 3.6% increase in the 2013-2014 tax revenues with the 10% average inflation rate registered in the same year, it appears that the real tax revenues decreased by more than 6.4%.

The deficit in the total assets' uses, revenues, loan proceeds, and asset sales grew less with 16.8% (363.3 billion EGP), reflecting the extraordinary revenues which came from the Gulf and postponed fiscal policy amendments.

Despite that, the situation didn't last long as Gulf assistance progressively started to decrease, pushing the state to change fiscal policies to please the business community and attract investments.

The revolution's policies fail in favor of businessmen

On the second day of the new fiscal year, el-Sisi nullified Morsi's decisions to extend sales taxes. In the same law (no.58 of 2014), he adopted new extensions of the same tax burdening citizens. The 2014-2015 budget showed that the state was headed towards a bigger extension of the sales tax by turning towards the VAT.

In August 2014, el-Sisi adopted new amendments of the real estate tax,²⁸ including tax exemptions for facilities of an economic nature affiliated to the armed forces, sparking a controversy about the nature of economic privileges given to the army.²⁹

²⁷ Egypt's finance minister: the adoption of the executive regulations for the stock market profits law, Reuters, April 2015, <http://bit.ly/2i5jDIu>

²⁸ Law no. 117 of 2014 on the amendment of some built-up area property tax law no. 196 of 2008

²⁹ These are the economic sectors which the army entered in 12 months, Mohammad Hamama, Mada Masr, September 2016 <http://bit.ly/2hVZlX>

Also, the implementation of the real estate tax faltered as analysis shows that this tax's revenues during the first two fiscal years in which it was implemented did not exceed 13% of the expected revenues.³⁰

At the end of 2014, the government was promoting a global economic conference to attract foreign investments at a time when a crisis in foreign exchange reserves was looming on the horizon. This conference was held in March 2015 and after it, the government announced fiscal amendments which represented a new setback on the path to tax justice.

Legislative amendments made by el-Sisi in August 2015 nullified the temporary tax imposed by his predecessor on the rich people and imposed a 22.5% unified tax for all those whose annual income exceeds 200 000 EGP.³¹

The setback series continued in September 2016 with the adoption by the first parliament elected after the 30th of June 2013 of the VAT law which increased taxes from 10 to 13% with an expected increase to 14% in 2017-2018.

The adoption of the VAT wasn't immune to International Finance Institutions' (IFIs) pressure. In fact, the law was passed almost a month after the IMF agreed to give Egypt a \$12 billion loan in an agreement based on the economic reform program prepared by the government and of which the main pillar was the extension of the consumption tax.³²

Conclusion

The information included in this paper shows that the path to social justice in fiscal policies has been unstable since the 25th of January revolution. This is clear in all the suggested fiscal policies presented and retracted by the post-revolution governments under the military council, the Muslim Brotherhood, Adli Mansour or el-Sisi, which bent under popular pressure, the business community and IFIs.

Because of this blunder and of conspiracies to put the capitalist minority's interests above the people's, the government failed to undertake a radical change in the fiscal system. Consequently, it suffered from a continuous deficit in financial resources as expenditure unlimitedly increased and government spending doubled between 2011 and 2016. Most of these expenses were funded by all forms of borrowing, leading to a growing inflation and more debt for the people.

³⁰ Real estate tax: a suspended law, Mona Diya', El Yawm El Sabeh, December 2015, <http://bit.ly/2ibv0L7>

³¹ Law no. 96 of 2015 on the amendment of some provisions of the income tax law no. 91 of 2005 and the decision about law no.44 of 2014 on imposing an additional temporary income tax

³² Statement: the IMF agrees to grant Egypt a 12\$ billion loan, Aswat Masriya, November 2011, <http://bit.ly/2gZledV>

This shows that the government didn't have a comprehensive economic vision to reduce inflation and debts with a clear fiscal structure and a separate strategy to increase the number of tax payers. Despite the deficit, it continued to spend and is now pushing the country towards the edge of sovereign default, making the new generations' future dependent on the mistakes of the past.

02

JORDAN

Tax Policies and Social Justice in Jordan

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Introduction

The present study is designed to analyze the tax policy and tax system in Jordan and their impact on social justice as one of the most important mechanisms related to the redistribution of income and wealth among individuals, thus improving its ability to achieve social justice and combating social inequality; this recognizes how the tax system may control social and economic differences through the provision of equitable services and opportunities by directing public spending.

The study includes a theoretical framework related to the tax concept, types and importance, and then addresses tax policies and social justice, and identifies the features of tax systems in general, and the characteristics of the tax system and management in Jordan.

The study aims to analyze the types of taxes in Jordan and examine the relationship between these types and indicators of tax justice. It also analyzes the relationship between tax exemptions, tax evasion, social justice, social inequality and the expansion of the informal sector.

The study's methodology will be based on the use of desk research, which includes the review of studies related to tax policy, the use of a qualitative research tool through in-depth interviews and focused working groups with legal and financial specialists on tax issues to examine tax policies, privileges and exemptions, and the extent of stakeholders' participation in developing tax policies and control, from the private sector, the civil society, the Parliament and trade unions.

The study will present a set of alternative recommendations and policies that would improve the fairness and efficiency of the tax system and policies in Jordan.

Part one

Introduction:

The Jordanian economy suffers from many structural imbalances expressing themselves by the chronic and persistent deficit in the public budget, in addition to the general indebtedness of the State, along with the high levels of poverty and unemployment. This resulted from the adoption of economic and financial options, which led to the development and implementation of non-social economic policies, which were part of the restructuring programs with the International Monetary Fund since 1989. These policies focused on a number of levels reflected by the deregulation of the Jordanian economy based on the philosophy of free market, the privatization of State-owned companies, the liberalization of foreign trade, the liberalization of prices, the lifting of subsidies on goods, including basic commodities, and the application of austerity policies on education, health, employment and social welfare. This led to deepening social imbalances, reflected by the spread of poverty, high unemployment, pressure on working conditions, especially wages, and widening social inequality. This was expressed by thousands of social and political protests over the past two and a half decades.

Over the past five years, security crises in both Syria and Iraq have deepened, borders have been closed, and the movement of goods and people has been strained by the economic crisis. It is known that Iraq and Syria are the main economic partners of Jordan. The large waves of refugees who entered Jordan from Syria over the past five years have also contributed to the pressure on the Jordanian economy, which has led to increased pressure on services and various sectors such as education, health, labor market and transportation, etc.

These factors led to a decline in GDP growth at constant prices of 1.9% in the third quarter of 2016, compared to 2.4% in 2015, and 2.8% in 2014.

As part of the restructuring programs of the Jordanian economy that Jordan has been implementing since 1989, these programs included plans and policies for what was called “tax reform”. The indirect tax, the General Sales Tax, and the special tax were increased, whereas the consumption tax was replaced by the General Sales Tax. Various amendments were introduced on the substance of tax policies, as progressive tax policies were not adopted effectively, and no tools to collect taxes from taxpayers and tax evaders were developed. The features of the tax system remained in place without any reforms to achieve social justice and alleviate social inequalities. These are the most important tools for the redistribution of wealth and achieving social justice.

Problem of the study:

Although successive Jordanian governments have announced more than once their intention to reform the tax system in order to increase its efficiency, most of these (reform) measures have not contributed to increasing the basic distortions of the system. Tax burden rates are very high and reach about 25% of the GDP; tax evasion levels are still very high, coupled with income tax revenues that are not more than 4% of the GDP. The expansion of indirect taxes also deepened social inequality and aggravated poverty levels. In this context, the study will analyze and examine the tax codes in Jordan from the perspective of achieving social justice. A number of dimensions will be tackled by analyzing the types of taxes applied in Jordan, tax exemptions, tax evasion, and the tax system management, in addition to analyzing the impact of these tax policies on the different social classes.

Importance of the study:

The importance of preparing this study comes from the importance of tax policies as one of the tools of wealth distribution and achieving social justice among the various components of the society, in addition to its developmental role in advancing the economy. The Arab region, including Jordan, is in a state of economic, social and political instability resulting from the application of unfair economic policies that have deepened social inequalities. Therefore, it is important to develop a study that focuses on the system’s shortcomings and tax policies applied in Jordan, their impact on the lives of society members, and the development of alternative tax policies that contribute to achieving social justice, alleviating social inequalities, and driving economic development in Jordan. Alternative policies are expected to provide policy options for all stakeholders from the Government, the Parliament, trade unions, employers’ organizations and others.

Objectives of the study:

The purpose of this study is to identify the tax concept, importance, types and objectives, as well as the characteristics of the tax system in Jordan in terms of: managing the tax system, tax types, tax exemptions, tax evasion, and the relation between these tax policies and social justice and social inequality, in addition to the participation of the different sectors such as the private sector and workers of different types and unions in the formulation and control of tax policies.

Methodology of the study:

In order to achieve the objectives of the study, the previous relevant literature will be reviewed and analyzed to identify the concept of tax and its development at the global and local levels, as well as to identify the characteristics of the tax system in Jordan. Moreover, numerous in-depth interviews will be conducted with some experts in the field of economic and financial policies, and current and former public sector experts as well as independent experts will be chosen. In addition, focused discussions with stakeholders (the private sector, civil society organizations, and trade and professional unions) on the tax system and policies pursued by the Government will be held.

Part two

Tax concept and importance:

Tax is defined as: a compulsory amount imposed by the State or one of its local bodies on individuals and collected from the taxpayer with no charges, in accordance with a specific law or legislation aimed at subsidizing the Treasury and financing government expenditure, to achieve economic and social objectives sought by the State.³³ Tax is also defined as a mandatory financial obligation imposed by the State under the applicable law on taxpayers without a direct charge, so that the State can improve its public services³⁴. Therefore, the tax is a burden on the income of taxpayers under the law, and they pay it compulsorily, freely and without direct interest to them, but as a contribution to the State's expenses to be able to achieve its development and investment objectives and plans³⁵.

Tax has many characteristics: compulsory by law, non-refundable, a monetary obligation by individuals to the State, with no direct remuneration but with benefits to the society in general, imposed, repealed and amended according to laws. Tax is collected from individuals and institutions through bodies and institutions involved in managing the process of tax collection, is used to finance the State expenses, and some types of taxes are paid periodically whereas others are paid once.

³³ Abou Nassar.Mohammed,Tax Accounting Income and Sales Tax, 1st edition, National Library Department, Amman-Jordan, 2011, p,33

³⁴ Dais, Faez Abdallah Naji, Role of Accounting Information System in Reducing Tax Evasion in the Tax Authority of the Republic of Yemen, Master Thesis, Al-Bayt University, Mafrag, Jordan, 2008, p.22

³⁵ Al-Zu'bi, Abdullah and others., Methods of Avoidance and Tax Evasion and the Absence of Jordanian Income Tax Law in Facing it, from the Income Tax Estimate, Al-Manara Journal, Vol 19, No. 2013 ,4, p.15

Objectives of taxation:

Taxation is usually aimed at achieving many goals related to the economic and social interests of the State and the society. The most important of these goals is to contribute to achieving social justice through the redistribution of wealth in the society, in addition to contributing to achieving development and reducing inequality among social groups.

There are some specific goals and purposes that can be summarized as follows:

1. Financial objectives: These are among the main objectives of any State in securing permanent revenues from domestic sources to the Treasury ³⁶, and maximizing domestic revenues to meet the increasing State expenditures arising from the increasing services and their expansion in supporting local development projects ³⁷.

2. Social objectives: Taxation affects the redistribution of income among the different categories of the society and contributes to eliminating the concentration of wealth in the hands of a few groups, to redistribute incomes from the high-income classes to poor and low-income groups ³⁸.

3. Economic objectives: Taxation is very important in improving the levels of growth of the national economy and minimizing structural imbalances. It is capable of stimulating investment, maximizing communities development, improving individuals' incomes, encouraging local industries, directing local investments to the economic sectors that are under attention and development, supporting investment projects, and improving the State's development situation ³⁹.

Types of taxes:

The types of taxes are as follows ⁴⁰:

1. Income tax: It is imposed on all types of income and its sources and the persons who receive it. It is considered a personal tax because it takes into account the social conditions of taxpayers. It may be in kind because it is imposed on income and regardless of the persons (corporate income).

2. Customs duties: A tax levied on goods imported from other countries. It is added to the cost of goods and generates large revenues for the State. It is used to protect local production, and varies according to the type and source of the commodity and is usually subject to inter-State agreements.

3. Sales tax: It is a tax imposed on goods according to the selling price, and takes the form of a percentage. It represents the consumer's responsibility for the goods; it is borne once the goods are bought. It can be imposed on all goods without discrimination (comprehensive sales tax) or on some commodities like luxury goods.

³⁶ Al-Khatib, Khaled Shehadeh, Scientific and Practical Principles in Tax Accounting, 1st Edition, Hamed Press, Amman, Jordan, 2008, p.24

³⁷ Abu-Hashish, Khalil Mohammed, Tax Accounting, Al-Ithraa Press, Amman, Jordan, 2008, p.64

³⁸ Al-Omar, Mohammed, Types of Tax Systems, http://www.cba.edu.kw/reyadh/330/alomar_Taxes_MOF.doc

⁴⁰ Introduction to taxes: Taxes accounting, site.iugaza.edu.ps/shawareb/files/02/2010/Introduction_to_Taxes.doc

4. Value Added Tax: It is levied on the basis of expenditure on goods and services at all stages of production. It is called so because it is imposed on the total value of sales after putting up purchases for the same period.

5. Wealth tax: A tax imposed on the basis of wealth or capital in order to narrow the gap between society members and not to allow wealth concentration in certain categories. It may be imposed once or periodically and annually.

In Jordan, various taxes are applied and include: income tax, General Sales Tax, customs duties, social tax, additional taxes, licenses, fees, mail and telephone, building tax, fuel revenues, profession fees, and dozens of fees and licenses, etc.

Tax policies and social justice:

Tax policies are one of the most important mechanisms to redistribute income and wealth among individuals, and thus to achieve social justice and reduce social inequality, for that the tax system controls social and economic disparities by providing equitable services and opportunities through public spending.

One of the most important rules that decision-makers must adopt when formulating the State's tax policies is the rule of justice, which is one of the most important principles of the effective tax system. It means that all society members contribute to the State's expenses in proportion to their income. A good tax is also clearly defined and stated, with clear collection dates, so that the taxpayer has prior knowledge of its obligations, and the capacity to defend his rights against any abuse of power.

The work on finding a fair tax system is of great benefit to the national economy and to achieve development in all fields. This also helps decision-makers determine the value of the tax and the cost that the person will bear according to his ability, besides identifying the categories that will be granted tax exemptions, and the increase of investment rates and productive projects that serve all that. Tax policies are therefore an important means to achieve social justice among individuals by redistributing the income, reducing social inequality, through the value and types of the imposed taxes, and determining the factors that are necessary to distribute income among them ⁴¹.

Various social economics studies confirm that the emphasis on the principle of direct income tax, based on its progressive form, according to the diversity and multiplicity of social categories' income, is one of the most equitable tax systems that reduce social inequality, and a means to achieve economic development, attract investments and create greater employment opportunities for a large group of individuals and citizens.

⁴¹ Mayala, Moaied, The Tax System and Economic Social and Political Systems in Palestine, Al-Najah National University, Nablus, Palestine, 2006

One of the fundamentals of the tax system is to take account of the taxpayers' ability to pay, not to impose the tax burden on them, the necessity not to increase its imposition, take into account the personal circumstances of taxpayers, and impose taxes consistent with their financial means to avoid the problem of tax evasion. Moreover, the increasing value of the tax will affect the taxpayer's capital and its gradual depletion, until this affects the activity of the taxpayer, and thus blocks economic growth.

The main problems facing social justice and the reduction of social inequality as a result of the tax system in Jordan are:

1. Lack of clarity of tax legislations

One of the most important reasons for tax evasion is the fact that businessmen believe that the Government's adoption of tax increases will reduce their expected profit margin, which increases the likelihood of seeing people resort to finding technical and legal gaps to help them evade taxes. There are many reasons that lead to tax evasion, including legal, political, economic and social reasons. These can be classified as follows⁴²:

Technical and legal reasons: Many amendments to the tax law are complex and unclear for non-specialists, in addition to the instability of tax legislations.

The increase in the activity of the informal sector and the absence of legislations to collect taxes have contributed to the high rate of tax evasion, since the institutions responsible for tax management are unable to determine the number and quality of taxpayers.

Economic and social reasons, including: The inefficiency of public expenditure, the person's sense of not getting the desired benefit from paying taxes, in addition to the high level of prices and the high cost of living, apart from the lack of the sense of justice and the lack of public awareness of the importance of taxation. All these factors led to this evasion and aggravated it in the past years.

2. Expansion of indirect taxes:

The tax system in Jordan is based mainly on indirect taxes, and there is a general sense that it is biased to these taxes. Data indicate that indirect taxes, especially the General Sales Tax, have become the main source of government revenues. Their relative importance increased from 10.6% in 1985-1988 to 45.8% in 2009-2012. The proportion of indirect taxes increased from 61% in 2009 to 69% in 2012 of total tax and non-tax revenues, while the relative importance of income taxes decreased from 4.5% to 3.6% in the same period. This affects the principle of justice among individuals due to the difference of social categories regardless of their income levels and ability to pay their dues from those taxes⁴³.

⁴² Tax Evasion in Jordan, Study by Jordanian Economic and Social Council, 2014, pp.25-23

⁴³ Ministry of Finance, public finance reports, various numbers, 1990-2005

3. Punishing those who are committed and tolerant of tax evaders:

A careful reading of the various amendments that have been made to the Jordanian tax system over the past years show that it has not developed any tools to activate the ways and methods of tax collection for taxpayers and tax evaders, whether it is an income tax or the General Sales Tax. Therefore, the rates of tax evasion continue, according to the statements of many Government officials and reach about (800 - 1000) million Dinars annually. At the same time, these amendments focused on increasing tax deductions on the groups that are committed to payment from companies of all types and individuals.

4. Multiple social groups exempt from tax:

The tax system currently in force under the Income Tax Law and the General Sales Tax Act of 2014 is characterized by multiple categories that are exempt from the income, which is considered the most effective way to reduce the tax burden on citizens if these categories were reduced, particularly entities, institutions, and companies. The State Treasury and revenues are supported by funds that contribute to reducing the size of the budget deficit and consequently to implementing development projects that reduce the size of the economic and social challenges in the Kingdom. The Government can therefore re-spend these revenues to enable citizens to enjoy their economic and social rights, and particularly education, health, labor and infrastructure. These exemptions have expanded remarkably during the recent amendments. They include,⁴⁴ the King's allocations, the income of official institutions, public establishments, and municipalities from inside the Kingdom, with the exception of the profits of any investment activity or the surplus of annual revenues decided by the Council of Ministers at the discretion of the relevant ministers, the profits of foreign companies that do not operate in the Kingdom, such as headquarters companies and representative offices abroad, the income of charitable endowments and of the Orphans Fund Development Foundation, the dividends distributed by residents except for the distribution of the profits of mutual funds to banks, basic telecommunications and mining companies, insurance companies, reinsurance companies, brokerage firms, financial companies, legal persons engaged in financial leasing activities, capital gains from within the Kingdom except for the profits realized on assets covered by the provisions of depreciation in this law, the income from within the Kingdom from trading in shares, stocks, bonds, lending bonds, Islamic finance instruments, treasury bonds, mutual funds, future and option contracts related to any of them, with the exception of what is realized for banks, basic telecommunications and mining companies, insurance companies, reinsurance companies, brokerage firms, financial companies, legal persons engaged in financial leasing activities, the income earned by resident non-Jordanian investors from sources outside the Kingdom arising from the investment of their foreign capital, revenues, profits and the proceeds of liquidating their investments or selling their project or shares after being taken out of the Kingdom in accordance with the provisions of the Investment Law or any other law, compensations paid by insurance companies except for the payment of the allowance for loss of income from employment or business, the income of jobs paid to members of the non-Jordanian diplomatic or consular corps representing other countries in the Kingdom based on reciprocity, the income resulting from the distribution of inheritance to

⁴⁴ Income tax law and the General Sales Tax number (34) for 2014, article 4.

heirs recommended to them in accordance with the provisions of the legislation in force, end of service benefits due to employees under the legislation in force or any collective arrangements approved by the relevant ministers: (100%) for employees' services prior to 31/12/2009, and subjecting the amounts exceeding (5000) Dinars of the end of service benefits due to the employees as of 1/1/2010, and the first (3500) Dinars of the total monthly pension including illness, the income of blind people and those who suffer from total disability, the revenues made by banks and financial companies not operating in the Kingdom resulting from deposits, commissions, the profits of deposits in the investments of banks and financial companies that do not receive interests, the profits of reinsurance companies not operating in the Kingdom resulting from insurance contracts entered into by insurance companies operating in the Kingdom, the income covered by double taxation agreements concluded by the Government and to the extent provided for in these agreements. Moreover, the following are exempted from the income tax: appropriations and additional allowances paid by virtue of working abroad for members of the Jordanian diplomatic and consular corps in accordance with the provisions of the diplomatic service regulation, government employees, public official institutions, public establishments and employees of any of them, meals provided to employees at the workplace, accommodation services provided to staff at the workplace, equipment and clothing necessary for the performance of the work provided by the employer to the employee. The following persons and parties are exempted from the income tax, provided that the terms and conditions related to this exemption are specified by a special regulation issued for this purpose: parties, unions and professional bodies, including chambers of commerce and industry, cooperatives and other associations registered and legally licensed from non-profit work, religious, charitable, cultural, educational, sporting or non-profit health institutions, exempted companies registered under the Companies Law, which are entitled to perform their business outside the Kingdom except for the income derived from the sources of income subject to tax under the provisions of this law, non-profit companies registered under the Companies Act, the income of public pension funds, private pension funds, saving funds and other funds approved by the relevant ministers from the contributions of subscribers and employers. It is also possible to exempt wholly or partially the profits of specific types of exported goods and services of domestic origin outside the Kingdom, provided that the basis for the exemption and the types of covered goods and services and their percentage and duration are determined by a regulation issued for this purpose. Subject to paragraph (17) of paragraph (a) of this article, the exemptions stated in this article shall not apply to the income subjected to the tax in accordance with the provisions of paragraph (c) of article (3) of this Law.

The total income derived from an agricultural activity within the Kingdom shall also be exempt from tax. The same applies to the total income of the resident natural person by a maximum of 12,000 Dinars for the taxpayer and 12,000 Dinars for the dependents regardless of their number. Natural persons and dependents shall be granted exemptions in return for the expenses of treatment, education, and rent, the interest of housing loans and Murabaha on housing, technical, engineering and legal services up to a maximum of 4,000 Dinars based on supporting bills or documents. The taxpayer or his wife may benefit from the difference of exemptions granted under the provisions of paragraph (a) of this article, provided that the exemption granted in all cases does not exceed 28,000 Dinars for the taxpayer, his wife and dependents.

The joint declaration may be submitted only with the consent of the spouses. A non-resident Jordanian natural person may benefit from the exemptions for dependents residing in the Kingdom if he is in charge of them.

5. Tax system and progression:

The rule of justice in imposing a tax appropriate to the level of income of the taxpayer is subject to change and modification, depending on the change in economic and social conditions, which made public finance experts develop theories according to those changes depending on the type of the used tax, and focus on the progressive tax.

Accordingly, the theory of social solidarity emerged; it states that the amount of tax payable must be according to the value of income. For high income earners, the tax rate is high but is not applicable to poor classes who must benefit from tax revenues. The progressive tax is more equitable than other type of taxes, such as relative tax, and thus meets the purpose of supporting the poor and reduces disparities between social classes. It also takes into consideration the social situation of taxpayers because it reduces the tax burden on married people more than on singles.⁴⁵

Accordingly, in light of the analysis of the Jordanian Tax Law, we find that the categories adopting the progressive taxes are limited and restricted in three close segments represented in: 7% for the first 10,000 Dinars and 14% for the next 10,000 Dinars and 20% for all exceeding amounts. As for the legal persons, they are the following: industry 14%, telecommunications, electricity generation, basic mining companies, insurance and reinsurance companies, brokerage firms, financial companies, and legal persons engaged in financial leasing activities (24%), the banking sector (35%) and 20% for all other legal entities (commercial, services, professional ... etc.) which are not mentioned in the above items exclusively.⁴⁶

6. Tax evasion

Tax evasion is defined as an attempt by the taxpayer not to pay the tax due wholly or partially, through ways and methods contrary to the provisions of the tax regulation, and by means of fraud⁴⁷. It is also defined as: an act that contradicts the law, namely, the taxpayer's failure to pay or reduce the tax for a value that is less than the value to be complied with⁴⁸. Tax evasion has reached about 800-1000 million Dinars annually, according to official statements. The main causes of tax evasion, as noted elsewhere in this study, are due to legal, political, economic and social reasons. The weakness of law enforcement due to the weakness of political reform plays a key role in the creation of centers of influence that Government institutions cannot approach and subject to laws.

⁴⁵ Al-Qaisi, Aad, Public Finance and Tax Legislation, First Edition, Dar Al-Thaqafa for Publishing and Distribution, Amman, 2008, p. 129

⁴⁶ Income tax law and the General Sales Tax number (34) of 2014, ISTD: <http://www.istd.gov.jo/ISTD/Arabic/Legislations/LatestLaws/>

⁴⁷ Al-Khatib 2008, op. cit., p.24

⁴⁸ McLaren, J., The Distinction between tax Avoidance and tax Evasion has become blurred in Australia: why has it happened? Journal of the Australasian Tax Teachers Association 2008, Vol.3 No.2, PP 141-163

Part three

Conclusion and recommendations

In light of the previous analysis of the tax system and policies in Jordan, it is clear that the tax system in Jordan depends mainly on indirect taxes, especially the General Sales Tax and special taxes, which resulted in an imbalance in the fairness of the tax system. This type of taxes does not distinguish between the poor and the rich, and has contributed to deepening social inequality due to its fundamental contribution to raising prices in general, creating pressure on the poor and middle classes. The system is also characterized by a lack of real progressive trait, and therefore is a system lacking social justice. Furthermore, the tax system in Jordan is inefficient due to its inability to collect taxes from taxpayers, and indicators of tax evasion are increasing dramatically.

In the light of these conclusions, the following recommendations can be made:

- Expand the income bracket to which the progressive tax is applied so that it becomes between 5 to 7 categories, to be more equitable and representative of income levels in Jordan;
- Reduce the General Sales Tax levels to 10% instead of 16%;
- Cancel special and very high taxes, especially on the sectors of communications and fuel;
- Develop monitoring and collection tools for business sectors to stop the bleeding of tax evasion, and strengthen law enforcement in this regard;
- Enhance the participation of stakeholders in tax policy-making and control (the private sector, workers, the civil society, and trade unions);
- Raise the awareness of policy makers, their implementers and the society (taxpayers) in terms of the role of tax policy in achieving social justice and combating social inequalities;
- Raise the awareness of policy makers, their implementers and the society (taxpayers) in terms of the role of tax policy in promoting development under all its dimensions.

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03

LEBANON

The Quest for Social Justice in Lebanon: The need for fair taxation

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The Quest for Social Justice in Lebanon: The need for fair taxation ⁴⁹

1. Introduction

Lebanese citizens often complain about the heavy tax burden they face, and they often joke that consuming air will soon be taxed. This popular satire is a very accurate depiction of the tax system in the country. In fact, Lebanon's tax burden is low compared with similar income level and high income level countries, nevertheless its toll is heavy on most citizens. This joke illustrates the favoritism of public policies in imposing taxes on consumption (indirect taxation) rather than incomes. Citizens also criticize the heavy inequality and hardship they feel they endure in the country especially with escalating internal and external economic, social and political crisis. The high incidence of distributive and functional income inequality is often symptomatic of the absence or weakness of redistribution mechanisms in the economy as well as the quality of public service provision. A principle tool for these mechanisms is taxation systems and their contribution to social justice, whether negative or positive. Why do most citizens feel they carry a heavy tax burden? Does the tax regime in Lebanon contribute to social justice? Which economic patterns does the Lebanese tax system serve? Who are the beneficiaries and injured parties of the current tax system?

This paper aims to answer these questions by examining the Lebanese taxation system from the lens of its economic and political functions. In this regard, the mainstream in the analysis of taxation in Lebanon has focused on examining it from a technical perspective while leaving out its structural aspects, in terms of the parties and objectives it serves. This paper adopts a political economy approach analyzing taxation in Lebanon as part of the whole political and economic system governing the country. Therefore, it does not limit itself to examining the shortfalls of the system in terms of efficiency, tax collection, evasion and avoidance but exceeds them to try to understand the rationale behind the current taxation system. To this end, the paper is divided into four sections. It starts with an overview of the political economy in Lebanon in relation to shaping the post-war system. It examines the post-war economic policies and the context in which tax reforms were undertaken. Then, the paper takes a closer look at the different types of taxes in Lebanon and their revenues and tax administration. It presents, in detail, the taxes enforced and their different weights in terms of total tax revenues and their share of GDP in comparison to other contexts. The third section analyses thoroughly the political economy of taxation attempting to depict the *raison d'être* of the Lebanese taxation system. It attempts to unfold the function of taxes in consolidating relations of power within the Lebanese system. It also shows the toll taxes take on different stakeholders while pinpointing beneficiaries and injured parties. Finally, the paper concludes with ideas on the path towards establishing tax justice in Lebanon placing it in a context of fair, equitable, inclusive and sustainable economic patterns.

⁴⁹ I would like to thank Mohammad Zbib, editor of the socio-economic page in Al-Akhbar newspaper for the consultation and valuable thoughts he provided when I discussed the subject with him. I would also like to especially thank my former colleague, dear friend, and fellow researcher Rabih Fakhri for the provoking discussions that stimulated my thoughts throughout the process of writing this paper. Finally, I thank Dr. Roland Riachi for his valuable comments.

2. Overview of the Lebanese political economy

Post-war power-sharing formula: Alliance between warlords and businessmen

In order to understand the taxation system in Lebanon, a brief account of the main features of the Lebanese political economy in general is necessary. In fact, taxation cannot be fully understood if the power relations in the Lebanese system are left aside, and more specifically, the relations between labor and capital, consumers and suppliers, and particularly how and where wealth is generated in the Lebanese economy. When analyzing the Lebanese political economy, several historical phases can be distinguished, with the Lebanese civil war (1975-1990) marking the most important milestone. Therefore, our analysis throughout the paper will focus on the post-war period, or what is deemed as the reconstruction period in order to narrow the analysis as the scope of the paper doesn't permit to delve into other periods. Nevertheless, it is worth mentioning that the core features of the Lebanese political economy have not radically changed since Lebanon gained its independence in 1943.

The post-war economic landscape was facilitated by two major events. First, the hyperinflation in the 1980s that continued until 1992 as a result of the collapse of the Lebanese pound. In this regard, the economist Ghassan Dibeh asserts that this prolonged hyperinflation was a deliberate policy to massively transfer wealth from workers to the business elite (Dibeh 2015). According to Gaspard (2004), the hyperinflation and currency instability wave that started in 1984 was caused by Lebanese banks speculating against the Lebanese pounds while stacking currencies in American dollars, as well as providing credit for its favored customers in Lebanese Pounds so they can buy US dollars. In sum, from 1984 to 1992, the Lebanese Pound was dramatically devaluated: from 4.5 LBP to one US dollar to reach 1800 LBP to one US dollar in 1992 (Gaspard 2004). Dibeh argues that these speculations led to the evaporation of the middle classes' savings and ushered the way for the control of financial capital over the Lebanese economy. Second, and in the same regard, Fawaz Traboulsi describes the devaluation of the currency in 1992 as a financial coup d'état that paved the way for Rafiq el Hariri to ascend to power as Prime Minister (Traboulsi 2016). These two developments ushered the beginning of post-war economic system based on reconstruction.

The political agreement that ended the prolonged civil war established a new power sharing formula in the Lebanese republic. Leenders (2004) distinguishes three main factions: traditional leaders (zu'ama), ex-militia men, and the business elite (Leenders 2004). The latter represented a significant change in the Lebanese system as it incorporated a rising business elite spearheaded by the late Prime Minister Rafiq EL-Hariri who had the most significant impact on the Lebanese political economy and economic and fiscal policies. In fact, from 1989 to 2003, the business elite occupied 20 percent of the total core posts in the subsequent ministerial cabinets (Leenders 2004). This period ushered the process of what Traboulsi (2016) calls the "rentier-ing" economy. In this regard, economic and financial elites have forged an alliance with the post-war ruling alliance to reinvent the Lebanese liberal economy, albeit through renewing and innovating wealth accumulation methods.

This has been witnessed in the relation between the political authorities and the “economic committees.”⁵⁰ This strong relation has manifested itself recurrently where the executive and legislative branches of power are intertwined and blurred with the power of the economic and financial elites. This has taken its most blatant form during the latest waves of public sector servants’ strikes (2012-2014) demanding wage adjustment and increase. The latter groups demanded that profit from rents (such as real-estate, bank deposits, etc.) be taxed in order to fund wage increase. The “economic committees” spearheaded the attacks on public servants and school teachers when they deemed the government unable to handle the issue. The increasing power of this elite was clearly expressed by its head who publically stated that “we don’t obey, but we are obeyed.”⁵¹

Fawaz Traboulsi (2016) described the above-mentioned alliance as “the oligarchy”, i.e. the rule of the minority. This strong alliance has manifested in numerous studies, the latest of which was Dr. Jad Chaaban’s mapping of the links between banks and politicians in Lebanon. It revealed that 18 out of the top 20 banks (that control 99 percent of the sector’s assets) have major shareholders linked to political elites, and that there is substantial control over the Board of Directors where 15 out of the 20 banks have the chair of the board linked to politicians (Chaaban 2015). This is an indication that bankers are no longer simply allies with the political elite, on the contrary they are now part of it, as they directly take part in the political establishment. It means that many bankers have now assumed the role of ruling politicians and not the other way around. This detail is very crucial for our following analysis as the post-war Lebanese economy revolved around the banking sector, which is heavily under-taxed or quasi-exempted from taxation. In the following passages, we will give a brief outline of the reconstruction economic policies.

The shaping of a new economic system based on reconstruction

The post-war period did not present an opportunity to rethink the Lebanese laissez-faire system; on the contrary, its fundamentals remained unchanged. The collapse of the Soviet Union has rendered the Lebanese economic system the actual mainstream (Gaspard 2004, 20). The government’s reconstruction plan introduced by PM Rafiq Hariri was outlined in the ambitious “Horizon 2000” program which was based on an expansionary expenditure program and a set of macroeconomic targets, in addition to the commitment to currency stabilization. Gaspard (2004) stated that it was more of a wish list than a solid economic program based on the capacities of the country and taking into account the context in which it was going to operate. The above-mentioned plan was not implemented mainly because it was economically unrealistic, as well as due to the impact of Syrian occupation and rivalries and frictions within the ruling elite. Nevertheless, major reforms and policies were underway and accentuated the rentier character of the Lebanese economy.

⁵⁰ It regroups the Bank Association, Chamber of Commerce and Industry, business men, association of Beirut traders, syndicate of contractors, and the syndicate of hotel owners.

⁵¹ This statement was uttered by the president of the Association of Beirut Traders, Nicolas Chammas, in the context of the strikes of the Trade Union Coordination Committee (TUCC) demanding wage adjustment for public sector workers. The TUCC demanded that the wage adjustment to be financed by taxes on rentier profits, while the government was discussing such proposals, Nicolas Chammas made the mentioned-statement during a TV interview.

The reconstruction economic policies had an initial objective to crowd in private investments through rebuilding and rehabilitating infrastructure. Nevertheless, it resulted in high public debt, as well as crowding out private investments through inflating the banking sector and placing rentier activities at the center of economic growth. This is crucial for our subject and analysis, as the post-war policies doubly penalized productive activities in favor of the untaxable sectors and put in place a regressive redistribution of income and wealth.

In line with its reconstruction efforts, the government necessitated huge expenditures on building infrastructure that were mainly financed through external debt. Nevertheless, debt service was financed by issuing treasury bills, which mainly benefitted Lebanese commercial banks. Treasury bonds with very high interest rates that averaged 18 percent between 1993 and 2002, and reached sometimes the threshold of 40 percent. According to Gaspard (2004, p. 218), these interest rates were excessively above market rates considering the monetary situation in the country. Moreover, the “TB market has in fact been more regulated through an unofficial understanding between the central bank and the major commercial banks than by independent supply and demand forces” (Gaspard 2004). Thus, as Dibeh puts it, the TB auction shielded the market from competition by foreign investors, rendering it a closed club for Lebanese banks (Dibeh 2005). This has resulted in at least USD 8.5 Billion of excess paid by the Government in terms of interest rates on TB. Gaspard asserts that the “government has embarked on a so-called reconstruction program that effectively involved massive financial transfers to the political elite and the banks” (Gaspard, 2004, p.229). On the other hand, the objective of currency stabilization and pegging it to the US dollar was to attract large capital inflows. As a result, bank capital accounts grew from 123 US million in 1990 to more than 7 billion USD in 2008 (Traboulsi 2016). It is worth mentioning that prior to 2003, no taxes were imposed on treasury bills or bank deposits interests.

The reconstruction period also ushered real estate development that culminated in the reconstruction of the Beirut Central District via a publically created private company, Solidere. Two other similar projects were supposed to be implemented in the Northern and Southern suburbs of Beirut, but they never saw the light (Dibeh 2005). The marked growth in the real estate sector was manifested in the increase of built areas between 1993 and 1995 by approximately 129 percent. Nevertheless, its supply was more directed to external demand, including Lebanese living abroad and investors from the Arab Gulf as opposed to internal demand (Abdo, Fakhri and Kobaissy 2017). Moreover, the Central Bank intervened in 1996 by issuing the law 543/1996 that provided banks with tax exemptions on housing loans (Association of Banks in Lebanon 2016). The real-estate and residential sector attracted nearly 70 percent of total foreign direct investments and constituted the major form of investment flowing into the country (Investment Development Authority of Lebanon 2010). This was coupled with monetary flows originating from remittances that also fueled the real-estate market (Abdo, Fakhri and Kobaissy Forthcoming). It is also worth mentioning that profits from real-estate speculations are not taxed. In fact, taxation on this sector is limited to property registration.

Dismantling productive sectors

The abovementioned policies led to deepening the historical and structural disadvantage of productive sectors in Lebanon, and more specifically the industrial sector. Gates describes Lebanon as “the merchant republic” (Gates 1998), a term that depicts accurately the balance of power in the Lebanese political economy in favor of the merchant class at the expense of industrialists. This merchant class is further dissected by Fawaz Traboulsi who deemed it as a “merchant financial oligarchy that took over economic power in the independence era” (Traboulsi 1998 ,196) constituted by a consortium of 30 families. They possessed banks, insurance companies, contracting companies, and they monopolized the exclusive agencies that controlled imports. Immediately after the independence, the Lebanese government took measures that favored this merchant who opposed the enactment of any kind of industrial policy. The Lebanese government went forward to liberalize the financial market as well as trade in coherence with its official national ideology of laissez-faire system that was championed at the wake of independence. As a matter of fact, on several instances, merchants went on strikes and forced the government to retract protectionist measures that were intended to support industrialists. Gaspard (2004) contends that this ideology and the power of the merchant class was one of the main reasons that hindered the development of a competitive and productive sectors in Lebanon. Capital inflow was more directed towards financial transactions and commercial activities based on import and intermediation that benefited from monopolistic rents rather than risky, innovative and long-term investments in productive sectors. “The problem in Lebanon’s laissez-faire system is [...] with the low investment rate out of profits or in relation to capital, which reflects the absence of the incentives or appropriate signals that the market is supposed to generate in the first place. For industrialists, there was no compelling reason to invest substantially more risk capital. Using profits more for consumption than investment was the preferred option”. (Gaspard 2004, 131)

This feature of the Lebanese economy was reinvented during the post-civil war period, albeit through increased rents that are not limited to merchant activities, but deepened and extended through real-estate and banking. In this regard, a World Bank study showed that rents generated from monopolies exceed 16 percent of GDP (Dessus and Ghaleb 2006), as well as real-estate transactions nearly doubled between the years 2000 (USD 3 billion) and 2009 (USD 5.3 billion) amounting to nearly 16 percent of the GDP as well (World Bank Group 2012). Moreover, commercial banks are investing around USD 39.8 billion in treasury bonds issued by the Ministry of Finance, as well as investing USD 54400 million as deposits in the central bank. As a result, banks have a yearly profit of USD 6 billion financed by public funds (Zbeeb 2014) . In parallel, the manufacturing sector’s contribution to GDP witnessed a decreasing trend where it contributed to 12.5 percent in 1997 and 8.9 percent in 2010. Overall, the growth rate of the manufacturing sector between 1997 and 2010 has been 1.5 percent whereas average GDP growth was 4 percent. Moreover, between 2004 and 2009, industry was responsible for the loss of 12664 jobs, and its share of job creation was -8 percent (Robalino and Sayed 2012). Indeed, the encouragement and proliferation of rentier untaxed activities such the above generating super-profits have caused the dismantling of the taxed productive sectors and shifted capital from the second to the first.

Post-war tax reforms

The post-war political economy of debt and reconstruction was accompanied by a series of tax reforms to secure proper revenues for the government to implement its various plans and policies. The official objectives of the post-war tax reforms were the following: first, simplify tax laws in accordance with the situation of the tax administration in terms of its modest human and technical capacities; second, decrease the tax burden on low-income categories; third, increase tax revenues through reducing the benefits of tax evasion; and finally provide incentives for local and foreign capital to invest in the Lebanese economy (Issa 1998). Nevertheless, Issa (1998) argues that tax reforms were intended to support the reconstruction plans and their function was to secure public revenues in view of reducing budget deficit as well as contributing in financing reconstruction. The reforms were also meant to attract private sector investments. He goes on arguing that the reforms did not alter the fundamentals of the Lebanese system, but maintained its pre-war characteristics (Issa 1998).

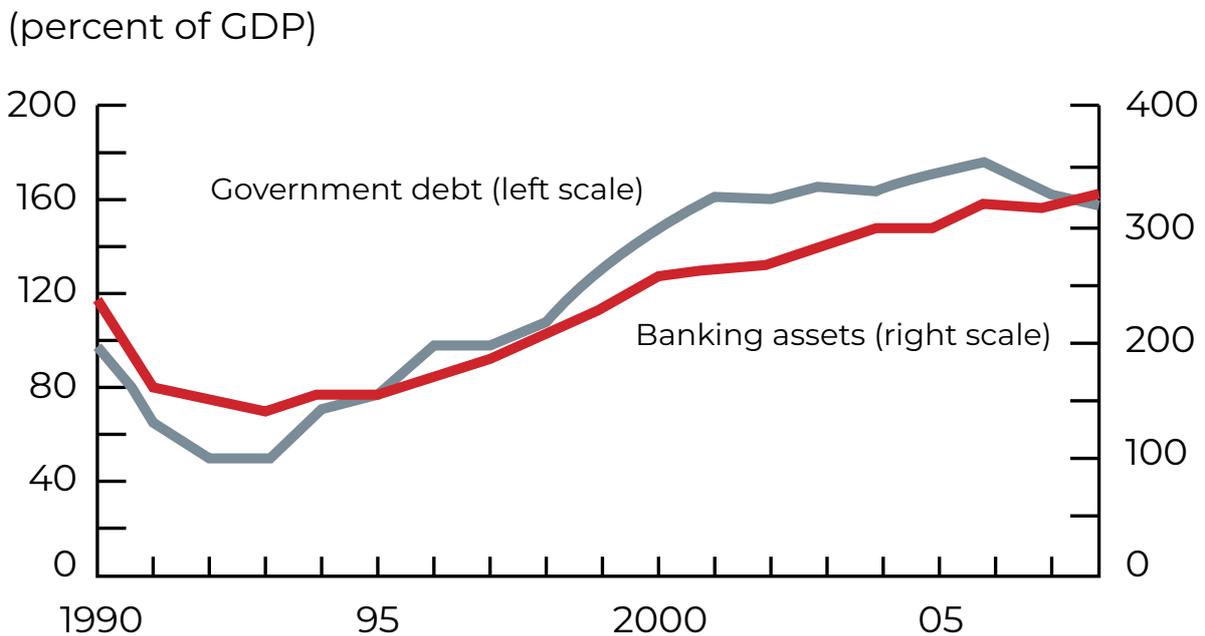
Thus, in line with the abovementioned objectives, several supply side tax reforms were conducted in 1994 mainly targeting direct taxes. The income tax on corporations' profits which reached 50 percent top marginal rate was reduced to a 10 percent flat tax. The profit taxes of individual enterprises ranged between 6 to 50 percent spread over 13 brackets was reduced to 3-10% divided over 4 brackets. Moreover, taxes on movable capital were reduced from 15 percent to 5 percent. Also, built property taxes were reduced from 15 percent top rate to 10 percent. Finally, taxes on wages were also reduced. In fact, prior to 1994, the tax ranged between 2 to 32 percent spread over 13 income brackets was reduced to a range between 2 percent and 10 percent divided over 5 brackets.

Regarding indirect taxation, different budget laws introduced changes that mainly targeted the increase of indirect taxes and custom duties. These included raising tax rates on several items including fuel, government services, and custom duties on the import of cars and several luxury items, as well as public service provision such as electricity, telecommunication and water. Nevertheless, the major reform only came later in 2002 with the introduction of a uniform value added tax (VAT) of 10 percent.

Table 1. Selected taxes and evolution of rates

Type of tax	rate prior to 1994	Tax reform in 1994	Tax reform in 1999
Corporate profit tax	12 brackets from 6 percent to 50 percent	10 percent flat rate	15 percent flat rate
Individual enterprises and professionals	12 brackets from 6 percent to 50 percent	4 brackets, between 3 percent to 10 percent	5 brackets, from 4 percent to 21 percent
Built property tax	Different types of taxes that amounted to 15 percent	4 percent to 10 percent.	Minimum tax rate of 0 percent and a maximum rate of 13 percent. It was amended again in 2004, from 4 percent as a minimum tax rate to a maximum rate of 14 percent according to 5 brackets
Movable capital	From 6 percent to 15 percent	5 percent on dividends and on income derived from movable capital (excluding interest rates on deposits and treasury bonds)	10 percent on dividends and on income derived from movable capital (excluding interest rates on deposits and treasury bonds that were introduced in 2003)
Income taxes on wages and salaries	From 2 percent to 32 percent according to 13 income brackets	From 2 percent to 10 percent according to 5 income brackets	From 2 percent to 20 percent according to 6 income brackets.

These reforms, specifically those targeting the alleviation of direct tax burdens, aimed at attracting private sector investments. Nevertheless, they fell short of expectations as the different tax exemptions on rentier economic activities and the inflated role of the banking sector only led to capital inflows being concentrated in the forms of bank deposits as well as fueling the real estate sectors. As a result, investment in productive sectors was limited and tax burden reduction failed to foster the increase of tax revenues expected as a result of the increase of the size in taxable economic activities (Issa 1998). On the contrary, the public debt burden significantly increased and pushed the Lebanese government to increase direct taxes again in the 1999 draft budget law and introduce the VAT tax. In fact, studying debt service to tax revenues ratio in 1994 reveals that debt service use 90 percent of tax revenues in 1994 and increased to 126 percent in 1997 (the author's calculation based on the data of the Ministry of Finance between 1992 and 2011). This leads to the conclusion that Lebanese taxpayers financed debt service, and subsequently the creditors, including banks. This can be clearly observed in the chart below where the banking assets strikingly follow the increase in Government debt. Therefore, the present tax system, as well as the incentive systems in the Lebanese economy have been causing a massive transfer of wealth deliberately and unintentionally from productive activities to rent-based activities, and from labor to capital, poor households to well-off households.



Source (Finger and Sdrilevich 2009)

3. Overview of the Lebanese taxation system

Typology of taxes ⁵²

In the first section of this paper, we laid out the political economy context in which taxes in Lebanon have been introduced and reformed. In the following section, a typology of the different taxes in Lebanon will be presented, following the categorization of direct and indirect taxes.

Direct taxes which target the direct income of individuals and corporations, are classified under two broad categories: income tax and built property tax. The first is laid out in the legislative decree number 144 issued on 12 June 1959, and the second is detailed in the built property tax issued on 17 September 1962. Both laws were modified on several occasions especially in the post-war period as mentioned above.

Income tax:

a) Tax on income of industrial, commercial and non-commercial professions: applicable to all firms and individuals within this category, i.e. professionals exercising liberal professions such as lawyers and physicians to freelancers. It includes all individuals and legal entities whose profits are realized in Lebanon regardless of their country of residence. It targets the net profits recorded at the end of the financial year for individual professionals, self-employed persons and partners in partnerships. As mentioned before, the tax is progressive and calculated according to 5 income brackets ranging from 4 percent to 21 percent. In sum, this tax targets the profit of individuals rather than corporations as a legal entity who are subject to a flat rate of 15 percent. Corporations include share companies which are joint stock companies, limited liabilities companies and mixed liabilities companies. Moreover, the tax on income for individual professionals, partners and self-employed is deducted after they benefit from family abatements according to the number of dependents in the household. There are several exemptions in this tax that we will address in later sections. Moreover, there exists a re-evaluation tax where the law allows firms to re-evaluate their fixed assets every five years, and in case these assets are re-evaluated at a higher price than their original book values, the re-evaluation surplus is taxed at a flat rate of 10 percent.

b) Tax on wages and salaries: applicable to wages, salaries and compensations. Unlike other income taxes, it does not require that the taxed individual declares his/her earnings as it is paid by the employer and automatically deducted from the individual's wage, it is thus called "the inerasible tax" (Awwad 2002). Moreover, similarly to the tax on income of industrial, commercial and non-commercial professions, the tax is deducted after applying family abatements. Moreover, the employee contributes 2 percent of his/her salary to the health-maternity branch of the national social security fund. The rest (21.5 percent) are paid by the employer divided according to the following: 7 percent to the health-maternity branch, 6 percent to family allowances, and 8.5 percent to end-of-service indemnity. Furthermore, some labor incomes are also exonerated from the tax on wages and salary which we will also examine at a later section.

⁵² This section is based on the information, laws and decrees retrieved from the website of the Ministry of Finance: <http://www.finance.gov.lb/>

c) Tax on movable capital: it targets financial instruments issued by public or private entities, specifically capital products such as dividends, interests and arrears. The burden of the tax falls on individuals (associate, employee, and partner) and is paid through the company. The tax is collected from the source and is impersonal, i.e. no information about the taxpayer is required. As specified above, incorporated companies pay a flat rate of 15 percent tax in profit; however if the profit is not invested and is distributed as dividends on partners, these dividends are then subject to the tax on movable capital. It is a flat rate of 10 percent, however interest on bank deposits and treasury bills are taxed at only 5 percent, whereas bank deposits are not taxed. It is worth noting that the 5 percent tax on interest income are deducted from the 15 percent tax on profit of banks as well as Eurobonds and treasury bills in foreign currency are exempted from tax on interest income.

Property tax:

a) Built property tax: it is charged on the stock of the owned property and on the income it generates. The first consists of a flat rate of 4 percent on the value of the property, and the second is progressive ranging from 4 percent to 14 percent according to 5 income brackets. The second type of tax is charged when the property is rented or invested, and the property includes the main building and all its supplements as detailed in the law issued in 1962. The tax is not applied when the property is vacant either by its owner or by absence of a tenant.

b) Taxes on the transfer of property: It is applied on the net value of the share of heirs when the movable or immovable property is transferred through inheritance, testacy, gifts, or other methods. The tax is progressive according to 6 brackets and there are varying rates according the degree of relationship between the inheritor and the legator.

Other direct taxes:

a) Reevaluation fee on the appreciation of the value of property as a result of public works. It is applied in case public works lead to the increase in the property value. Nevertheless it does not apply if public works consist of drainage systems and sidewalks. The fee is levied only if the size of the appreciation of the property is at least five times the monthly minimum wage, and it ranges between 10 percent and 40 percent on a proportional basis and not a progressive one.

b) Tax on lottery prizes: a tax of 10 percent is levied on gains in wealth as a result of winning lottery when the prize exceeds five times the lottery price.

Indirect taxes: they are generally taxes that target consumption and they do not differentiate between the tax payers, i.e. all consumers pay the tax regardless of their income or social situation. Indirect taxes in Lebanon have constituted the biggest share of tax revenues since independence. Nevertheless, their share has increased in the post-war period, especially since the adoption of VAT in 2002. Indirect taxes are easy to collect and harder to evade.

a) Value Added Tax (VAT): It is a general consumption tax levied on the value added on imported or local goods and services with some exemptions that include among other things basic food items, education, as well as some luxury items that we will address in a later section. The VAT in Lebanon, unlike many other countries, is a unified flat rate of 10 percent that is transferred to the consumer. It is applied on all levels of the product value chain, therefore it is easily collected regardless of whether the product was consumed or not. It was introduced in parallel with the reduction of custom duties and the increased liberalization of trade as Lebanon was negotiating the accession to the World Trade Organization. This tax is viewed as regressive as it does not differentiate between consumers income levels which has been attenuated with the exemption of items that constitute a significant chunk of the consumption of low-income households such as basic food items as specified above. Since its introduction in 2002, the VAT has been the most significant contributor to government revenues.

b) Custom duties: they are taxes imposed on imports and they can take different forms. There is a proportional taxation applied on the percentage value of imported goods. More than 84 percent of custom tariff lines have duties equal to 0 or 5 percent which is one of the lowest in the region (Dessus and Ghaleb 2006). Also, there is a qualitative tax imposed on the number of units imported, their weight or volume and not on their prices or values. Finally, there is the hybrid taxation which is a mix of the proportional tax and the qualitative tax (Awwad 2002). Moreover, Lebanon is engaged in several trade agreements whether bilateral or multilateral giving special treatments and exemptions on certain imported goods or in order to avoid double taxation of goods.

c) Stamp fees: There are two types, fixed or proportional. The first one is imposed on accords, conventions, certificates, permits, etc. The second one is applied on dealings with specific amount of money with different rates according to their nature. This range between 3 percent to receipts that proves the payment of insurance from the transportation department to 10 percent on the value of each lottery ticket.

d) Registration fees: are applied on all methods of transfer of ownership and are either fixed or proportional.

e) Tax on alcoholic and non-alcoholic drinks: it is levied on all beverages whether imported or locally produced. It is a flat rate according to the kind of beverage and per liter. Nevertheless, taxes on alcoholic beverages are higher than others.

f) Amusement tax: There are two kind of taxes, the first one is a 5 percent of the cost incurred by the consumer buying a ticket for cinema, theater, cirque, clubs, etc, and 40 percent of revenues of gambling in Casino du Liban. It is usually transferred to the consumer. The second one is a fee imposed on the possession of an amusement machine such as billiard table, video games, etc.

g) Fees on revenues of food, drinks and residence: a 5 percent flat tax on restaurants, hotels and furnished apartments. They are also transferred to the consumers.

h) Fee on fuel: it is a flat fee imposed on the importers of fuel and other oil products. It varies according to the decision of the Ministry of Energy and Water and it is immediately transferred to the consumer.

i) Fees on tobacco: imposed on imported tobacco.

j) Fees on mobile phones: fees on mobile network operators imposed by the Lebanese government. These fees are ultimately transferred to the consumers. It is estimated that nearly 65 percent of the revenues of this sector constitute tax or quasi-tax components (أبوزي 2010).

k) Landline fees: landline subscribers in Lebanon pay a monthly fee that does not include any service and it amounts to nearly 10 USD per month.

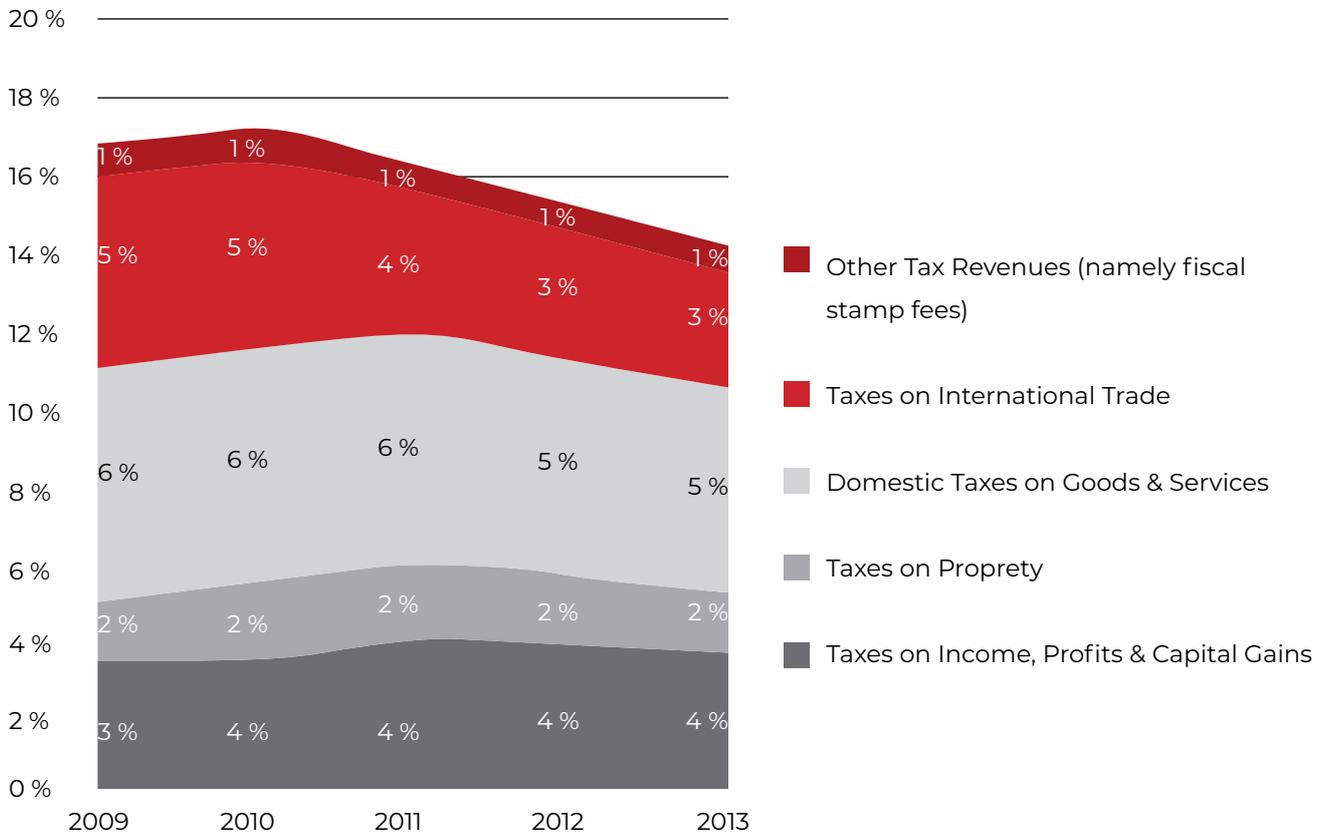
l) Dues on vehicles: yearly paid by the vehicle owner depending on the specifications and characteristics of the vehicles.

Tax structure to GDP⁵³

The Lebanese tax revenues represented 14 percent of GDP in 2013, with an average of 16 percent between 2009 and 2013. The tax revenues and tax structure are relatively stable, nevertheless their share of GDP has declined from 17 percent in 2009 to 14 percent in 2013. As it can be observed in the chart below, this decrease is mainly due to the decline in the share of taxes on international trade since 2009. This can be attributed to the regional political situation, mainly the Syrian conflict and its spillover to Lebanon and its probable effect on international trade.

⁵³ Unless stated otherwise, the numbers presented are based on the author's calculations based on national accounts data and the tax revenues data from the Ministry of Finance.

Chart 1. Share of taxes to GDP



Compared with the Middle-East and North Africa region, Lebanon is above the average, which is 9.4 percent and its tax revenues as share of GDP are considerably higher than most countries in the region. Nevertheless, if we compare according to economic similarities, we can conclude that Lebanon’s performance falls short. In fact, Lebanon is faring above most countries in the region due to the fact that most countries presented are resource-rich countries and revenues are in majority derived from the extraction of resources. In this regard, a comparison with Tunisia, Morocco and Palestine, we observe that Lebanon falls below the average of these countries. Nevertheless, while Lebanon falls within the average tax share to GDP for low income countries (13 percent), it falls short in terms of the averages of upper middle-income countries (20 percent).

Tax revenues as a share of GDP in Arab countries (Büsser 2014)

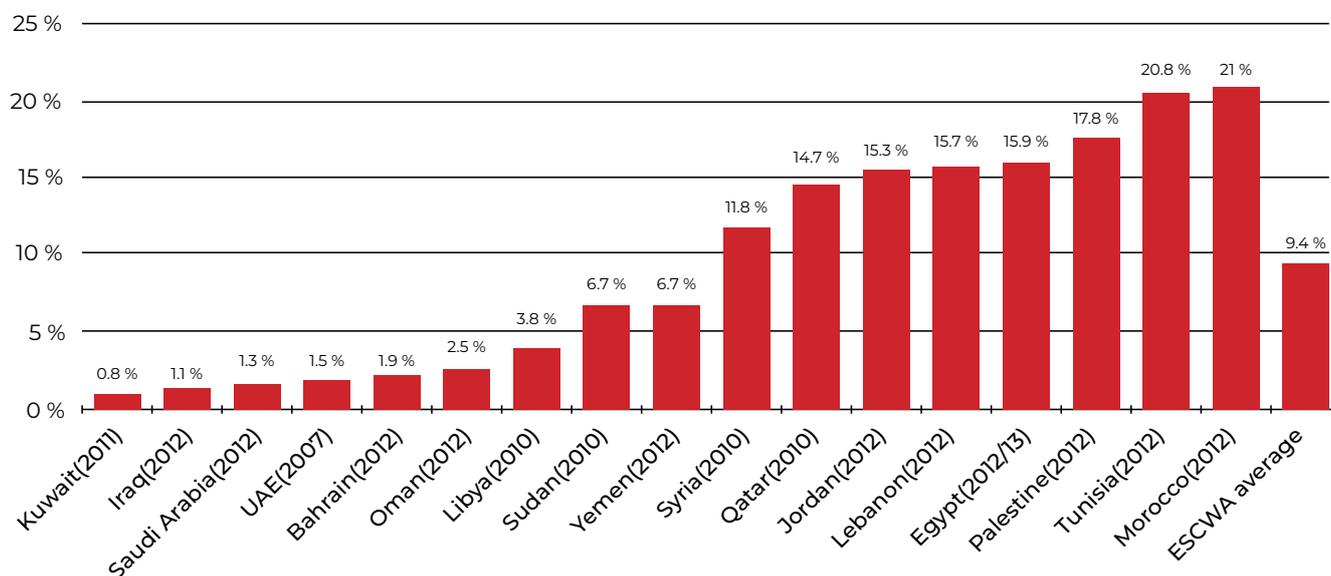
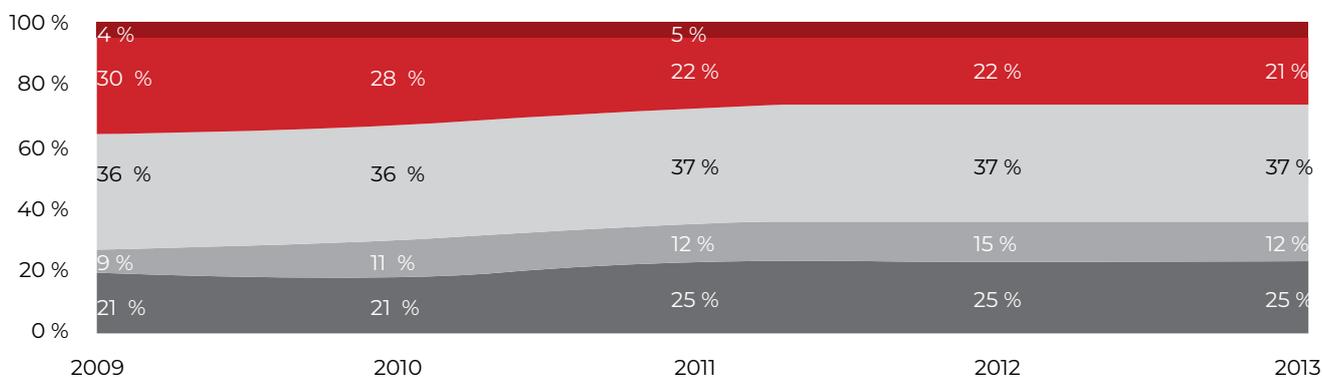


Chart 3. Share of different taxes to total tax revenue

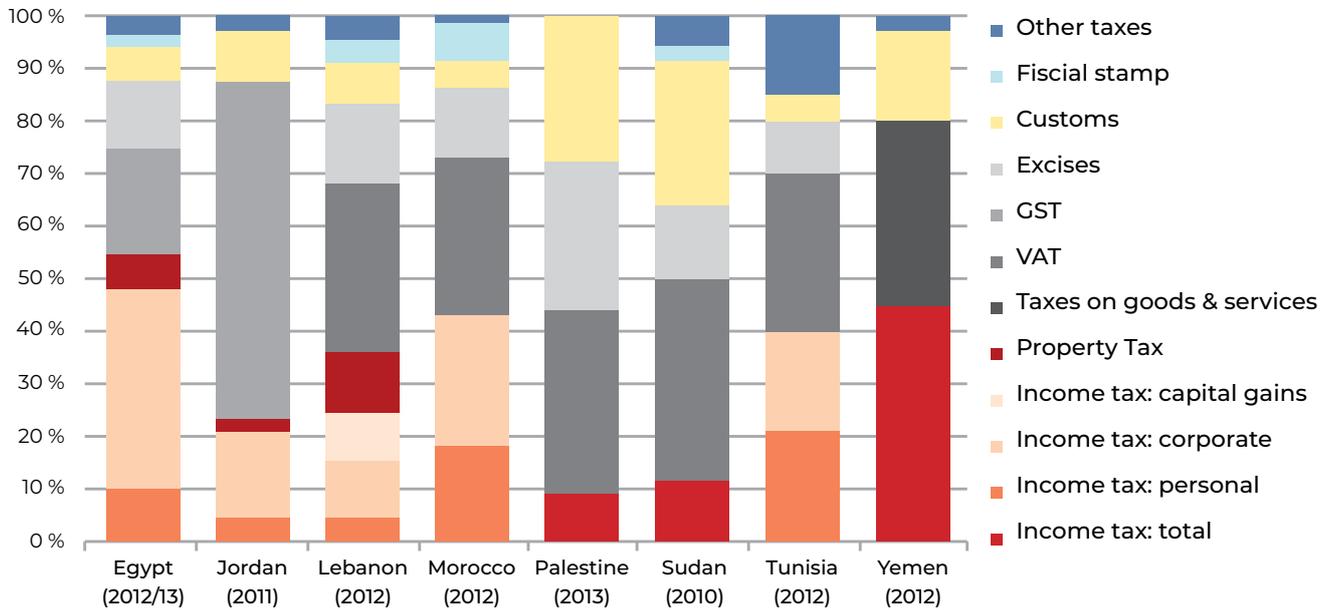


- Taxes on Income, Profits & Capital Gains
- Taxes on Property
- Domestic Taxes on Goods & Services
- Taxes on International Trade
- Other Tax Revenues (namely fiscal stamp fees)

As shown in Chart 3, the Lebanese tax revenues are highly dependent on indirect taxes which constituted 70 percent of total revenues in 2009, and they averaged 65 percent between 2009 and 2013. Once again, a simple comparison between Lebanon and other Arab countries shows that it has one of the lowest share of income tax relative to total tax revenues. As previously mentioned, the tax structure in Lebanon has not significantly changed since its independence, particularly in its reliance on indirect taxation. In the 1960s, the share of indirect taxes from the total tax revenues were 62.2 percent and increased to 77.4 percent in 1974. Moreover, a closer look at the composition of the tax on income, profits and capital gains, reveals that taxes on wages and salaries constitute on average 20 percent of the revenues of the income tax, whereas income taxes on profit constitute on average 40 percent and taxes on interest income and dividends represent nearly 38 percent on average.

A first look might give the impression that capital is heavily taxed relatively to labor that is least contributing to tax revenues. Nevertheless, a thorough analysis will reveal the contrary where taxes on wages and salaries mainly target middle income and lower income populations who have less possibilities to evade taxes than higher-income earners. Therefore, the bulk of the taxes on wages is finance by middle and lower income wage earners (Assouad 2015). In fact, in developed countries, revenues from personal income tax can reach four times the revenues from corporate income tax, while this relation is reversed in developing countries. In Lebanon, corporate income tax revenues are 2.3 times the personal income tax (Büsser 2014), which can be traced to several factors, such as the high prevalence of informality, ineffective tax administration, as well as the political economy of taxation that we will tackle later. This is not to say taxes on businesses are high, on the contrary, as Gaspard asserts, “the low tax burden on businesses is largely due to the standard and tolerated practice of parallel bookkeeping and systematic tax evasion” (Gaspard 2004). Furthermore, taxes on corporate profit “can be more easily transferred down the ladder to consumers and workers” (A. Bogliaccini and Luna 2016).

Composition of tax revenues in selected ESCWA member states (Büsser 2014)



Tax administration⁵⁴

Since 2000, many reforms have been introduced by the Ministry of Finance to enhance tax coverage, collection and administration. The only official document pertaining to these reforms was published in 2008 by the Ministry of Finance, one year after being awarded the United Nations Award for Public Service; no other official document was published since then. These reforms can be divided into two categories: legislative and procedural/administrative. On the legislative front, the major reform seen was the introduction of the value added tax in 2002 that significantly enhanced tax collection and revenues due to its simplicity as mentioned above. The government also planned to increase VAT to 12 percent however this reform never saw light due to popular contestation as well as intra-government and political disputes. Moreover, the tax procedure code was issued in 2008 addressing tax evasion, general administrative principles, unification of tax procedure implementation, definition of taxpayers' rights and obligations as well as tax administration's rights and obligations. The Ministry of Finance also drafted a Global Income Tax Law that was adopted by the Council of Ministers in 2007. This law is supposed to rectify many income tax deficiencies in Lebanon, mainly unifying income tax. This tax is levied on all incomes generated by individuals from business profits, wages, salaries, commissions, pension, and revenues from built property. In sum, it includes all incomes, except those resulting from movable capital. Nevertheless, the draft law is still in the parliament and was never voted on.

⁵⁴ The first two paragraphs of this section are based on the report of the Ministry of Finance entitled "reforms at the Ministry of Finance" (Ministry of Finance 2008).

On the administrative front, several reforms were undertaken the most important of which pertained to electronic taxation and the creation of new units within the Ministry of Finance. A system has been put in place to enable tax payers to file and process their tax transactions online, in parallel with updating and renovating the ministry's web portal. Moreover, tax declaration forms became available for online download. On the other hand, several units within the Ministry were created to constantly update the taxpayers' database and to increase revenues from domestic taxes. These units include the Large Taxpayer Office dealing with taxpayers whose turnover exceeds LBP 10 billion as well as finance and insurance companies; they also include the tax roll unit to manage and update taxpayers' database.

Despite these measures, tax administration and collection in Lebanon still lag behind in terms of coverage and transparency. In fact, there are no official estimates on the incidence of evasion or non-collection of taxes. However, unofficial estimates suggest that only 30 percent of taxpayers by law are paying taxes (Fadlallah 2008). This is due to three main causes: the high incidence of informality in terms of employee registration or business registration (see the following section), tax evasion and avoidance due to legal loopholes or political connection, and corruption. The Lebanese income tax law, due to the absence of the global income tax law, presents loopholes in order to avoid the payment of taxes or to decrease the incidence of tax. For example, "under the Lebanese profit tax, taxpayers have the possibility to avoid paying by choosing the regime by which they will be taxed, or by manipulating the legal forms of their company. Consequently, some taxpayers may shift their income from the personal to the corporate tax base, or create "fictitious" uni-personal firms to decrease their tax liabilities, thus reducing the reported income for a given actual personal income" (Assouad 2015). Moreover, several reports indicated the high incidence of corruption in tax collection, mainly the collusion between the tax inspectors and taxpayers. The Lebanese Transparency Association asserts that "all [tax] reforms remain without result if the state did not activate supervisory authorities on its employees who benefit from this weakness and use their administrative experience to manipulate the law and exempt taxpayers from paying what is due by law in return of personal favors. Some public sector employees look away from some companies' tax evasion practices" (Lebanese Transparency Association 2014). Finally, bank secrecy laws play a crucial role in tax evasion practices in Lebanon, through offshore companies and holdings who are exempted from income taxes. These companies make profits abroad in tax havens and transfer them to bank accounts in Lebanon that are also exempted from taxes. In this regard, Lebanon had an index secrecy score of 81 in the year 2011, knowing that the maximum score is 100 which makes it one of the most secretive countries in terms of jurisdictions (Tax Justice Network 2012). In sum, "Lebanon combines its secrecy offering with significant tax exemptions for nonresidents, including on profits, on stamp duties on contracts, inheritance taxes, corporate income taxes, dividend distributions, capital gains, interest, and more. The combination of tax exemptions and secrecy offerings make Lebanon a 'classic' tax haven or secrecy jurisdiction, rather narrowly focused, with relatively few financial sector alternatives to fall back on if it were to row back on secrecy. This relative lack of alternatives will make reform of the sector quite hard, not least because of path dependence issues; offshore bankers do not have many skills that can be readily transferred to other, more productive, occupations." (Tax Justice Network 2015)

4. Political economy of taxation in Lebanon

The prevalent analysis that is widely adopted when examining the Lebanese taxation system and structure has excessively focused on two approaches: the economic approach and the administrative approach, which have significantly influenced tax policy and reform in the post-war period. According to Di John (2006), the economic approach revolved around ways to design tax systems that enable “financing the ‘necessary’ level of public spending in the most efficient and equitable way” (Di John 2006). This approach focuses on how to balance between equity and efficiency, and more specifically worry about the perceived tension between the two. It analyzes the effect of profit taxation on investment, the effect of taxes on evasion and how to design systems that reduce the costs of compliance, and how different groups are affected. Moreover, it views the differences of tax structures between developed and developing economies based on the difference of economic structures. In this regard, for instance, the prevalence of indirect taxation in developing countries can be deemed more efficient due to the spread of the informal economy as opposed to developed economies where formality is the norm and thus the possibility of imposing a higher direct tax burden. Thus, we can deduce that this approach has contributed to taxation policies and reforms in Lebanon. More specifically, the decrease in top marginal income tax rates was meant to attract capital, also it was meant to increase compliance and as a result increasing tax revenues through lesser rates. Moreover, the introduction of VAT was meant to overcome the issue of taxing unregistered businesses and informal employment, as well as increase revenue for public spending and debt service.

On the other hand, “the administrative approach focuses on the role institutional design and policy plays in enhancing the prospects of efficiency and effectiveness of the tax system. Efficiency refers to administrative costs in collecting different types of taxes, enforcing tax laws, and the costs of tax payers in complying with those laws. Effectiveness refers to the extent to which taxes are predictable, transparent, and enforced by a fair judicial system” (Di John 2006). This approach suggests that the main constraints to tax collection are institutional in the administrative meaning of the term. Thus, the poor tax collection performance in developing countries is traced back to inefficient administration, corruption, lack of skills and knowledge of public sector workers, lack of capacities and necessary technology, and poor tax and penalty enforcement on tax payers. From this point, enhancing tax performance lies in circumventing these administrative difficulties through the simplification of tax rates and tax reporting. This attenuates the effect of corruption through creating independent tax collection administrations, and providing technical support among other means. This approach has also influenced tax policy in Lebanon and the interventions and cooperation of international governmental agencies, such as UNDP, the IMF and the World Bank, with the Lebanese government. The introduction of VAT as well as the other administrative reforms cited in the previous section, is a striking translation of the administrative rationale. The main cited advantage of the value added tax is its simplicity in terms of reporting and collection and it has been praised for the increased tax revenues since its introduction as well as its coverage.

Moreover, the reforms and policies that introduced electronic taxation and facilitating tax reporting as well as the introduction of information systems to update and maintain tax database are all manifestations of this approach. Another policy implication resides in the creation of independent and parallel institutions that are claimed to be technocratic and insulated from public sector corruption. As noted by the report of the Ministry of Finance, “the VAT organizational structure was ratified by law # 691 on August 27, 2005, establishing an independent directorate in charge of managing VAT, and thus enabling this directorate to appoint the needed heads of departments” (Ministry of Finance 2008). Furthermore, the ongoing United Nations Program for Development (UNDP) support for the Ministry of Finance has raised concerns of some critics deeming it a parallel unaccountable institution dealing with sovereign issues, notably taxes and public finance in general. Indeed, UNDP officials working at the Ministry of Finance are not appointed through the regular official means and channels, notably the civil service council, which public servants go through and is not under the jurisdiction of public supervisory bodies (Al-Akhbar Newspaper 2010) .

The above-mentioned approaches rendered issues of the taxation system and structure in Lebanon technical matters and decontextualized from its wider structural environment. As noted in the previous section, there are efforts to enhance taxation in Lebanon, but the issue of taxation in Lebanon cannot be dealt with in isolation from the prevailing political economy and structures of power in Lebanon. This approach, as stated by Di John, views “the diversity of patterns of taxation and resource mobilization among states is clearly a product of history. A brief look at the history of today’s developed countries demonstrates why an assessment of taxation, good governance and institutional formation needs to incorporate an understanding of processes of conflict and bargaining” (Di John 2006). Thus, without neglecting the importance economic and administrative approaches, the political economy perspective offers insights that can significantly contribute to the understanding of taxation in Lebanon. From this standpoint, we contend that fundamental questions in this matter do not reside in asking how we can reach a more efficient and equitable taxation systems in Lebanon, but instead we ought to ask: what are the power dynamics that are producing and reproducing the current taxation system? Who are the beneficiaries and who are the losers? These questions will be tackled by conducting a more thorough analysis of the different taxation schemes and their progressiveness or regressiveness, as well as the sectors affected. In this regard, we believe that the tax exonerations can be equally revealing, if not more, as the imposed taxes themselves.

Regressive income taxation

In order to try to answer the abovementioned questions, we will start by assessing the personal income tax, which is the direct tax paid by individual tax payers on their different sources of income and more specifically those on wages and taxes on profit for individuals and partners. As stated earlier, Lebanon does not have a global income tax regime, i.e. there exists different regimes for the different incomes earned by individuals. This leaves room for manipulation of the tax law in order to either find loopholes to legally avoid tax through the use of exemptions, or juggle between different regimes to pay the lesser amount of tax. For example, the establishment of a joint-liability company where the partners are stock-holders in a joint-stock company. Thus, the relationship between the two would be as follows: the first company distributes the products of the second. In this way it transfers the gains from the joint-stock company (taxed 15 percent on profit and 10 percent on distribution of dividends) to the partners of the joint liability company (taxed according to income brackets starting at 4 percent) on the account that its profits are considered to belong to each partner according to their share who is responsible for declaration (National Network to Combat Bribery - Lebanon 2010) . These kind of practices are more common within high income earners as they have the capacities and possibilities exercise such manipulations and exploit these loopholes. In fact, high income earners possess two advantages over other groups. First, their income is more diversified between wages, rents, self-employment and business income. Assouad (2015) conducted a thorough analysis of personal income tax based on official data released by the Ministry of Finance and the World Bank covering the period 2005-2012. The data comprises 502,000 tax files in 2005 and increases to 686,000 tax files in 2015, and reveals information on the total annual income before tax, and income after tax on wage, business and self-employment (it excludes taxes on movable income and rents). Assouad found that as income increases, its sources are more diversified and more specifically it depends less on wages and more on rents. Thus, in 2012, wages constituted 70.4 percent of income of those who earned USD 13,532 a year, rents constituted 16.3 percent, self-employment constituted 8.7 percent, partnership constituted 2.4 percent, whereas wage, rents, partnership and self-employment constituted 41.2 percent, 40.4 percent, 5 percent and 10.3 percent of those who have an income above USD 144, 610. Those are the reported shares which might be under-estimated especially for categories other than wage due to non-reporting (Assouad 2015). These numbers indicate the diversification of sources of income as we move up income groups which might give them more leeway to pay lesser taxes according to different regimes. Moreover, these different categories of income, except for wage, are based on filing tax returns, meaning that the concerned individual is supposed to declare, where there is room for evasion and corruption. On the other, hand wage earners tax is deducted from the source where the employer declares the salary of his employees. "As wages received are reported by employers, who generally do not have interest in underestimating the amounts, it is more difficult for workers to avoid paying taxes. Besides, the fiscal reforms undertaken in the 2000s (creation of a service of online declaration, creation of a separate unit within the revenue administration for the Deduction at Source of the Income Tax on Salaries in 2003, with the goal of automating operations of deduction at source), which aimed at increasing the number of taxpayers and at facilitating the management of tax illegalities, may have mainly affected low or middle-income taxpayers, and workers in particular" (Assouad 2015).

Decomposition of Top Income Shares by Source of Income, Lebanon, 2012 (Assouad 2015).

Income group	Wages	Rents	Self-employment	Corporations	Partners
Above USD 13,532	70.4	16.3	8.7	2.1	2.4
Above USD 41,194	60.3	23.8	9.8	2.7	3.4
Above USD 61,426	54.5	28.5	10.2	2.9	3.9
Above USD 144,610	41.2	40.4	10.3	3.1	5
Above USD 209,619	37.4	45.5	9	3	5.1
Above USD 567,828	32.5	55.6	4.4	2.3	5.3

On the other hand, and stemming from the first factor, high income earners have the capacities to evade due to their economic, social and political status. They have the means to hire accountants and lawyers, also they are more likely to be connected to circles of power. This once again refers us back to the Lebanese political economy, where, as mentioned above, economic and business elites are intertwined and often confused with political elites in what was deemed as an oligarchy where relations of favoritism are prevalent. This translates into looking away from under-reporting and protection of tax evaders. It was manifested in several occasions particularly through the legalization of tax irregularities. In 2006, the Government exempted employers who were not paying their National Social Security Funds contributions from penalty fees on their delays, also the Ministry of Finance and the Council of Ministers regularly make decisions to exempt companies from paying their due fees on violations of tax reporting and delay in tax payments. This results in exempting large tax payers from significant funds that should be paid to the treasury (Annahar Newspaper 2015) . In 2016, the Minister of Finance sent a request to the Council of Ministers to exempt 14 companies (including banks and real-estate companies) from penalties on their late tax payments and violations that amounted USD 105 Million (Al-Akhbar Newspaper 2016) .

These are few examples that demonstrate the disadvantaged position of low income earners relatively to high-income earners with regards to the tax burden. Furthermore, the various sources of income for top groups are either not subject to tax or its burden is very low compared with the income generated. This is further aggravated due to bank secrecy laws that prevent access to information of well-off tax payers. Indeed, from 2005 to 2012 there has been an increase in tax revenues mainly as a result of an increase in taxing wages: wage earners represented 53 percent of tax payers in 2005 and 61 percent in 2012, at a time where the share of other tax payers have decreased, such as rents that decreased from 34 percent to 29 percent, and from 2005 to 2013 the tax revenues from wages and salaries increased by 216 percent whereas taxes on profit for the same period increased by 138 percent (Assouad 2015). Finally, the increased burden on wage earners is manifested through the increased inflation coupled with wage freezing as it is estimated that between 1996 and 2012 inflation reached 100 percent in the absence of wage increase and adjustment (Ariss 2012).

As previously mentioned, the Lebanese personal income tax on wages and salaries and on individual businesses, professionals and partners is structured progressively into different brackets. In this regard, Picketty and Saez (2007) define a progressive tax system according to the following “a tax system can be defined as progressive if after-tax income is more equally distributed than before-tax income, and regressive if after-tax income is less equally distributed than before-tax income” (Piketty and Saez 2006). Assouad tested the progressivity of the Lebanese personal income tax according to the aforementioned definition through computing before and after tax incomes for the income groups defined above. The results show that the more we move up in income groups the less we see a difference in pre and post income tax, and for the top income groups the difference is almost non-existent. In this regard, the top groups have only seen their income decrease by 0.1 percent after the deduction of the personal income tax. This insignificance of the effect personal income tax reveals that the intended progressivity of the tax is not effective, on the contrary it can be deduced that the personal income tax is borderline regressive as it does not reduce the income of top groups while it reduces it for other groups, thus its re-distributional objective is not actualized. This is due to several reasons some of which has been outlined above, notably evasion and the diversity of the sources of income, however, others relate to the taxation scheme itself.

Difference between Pre and Post-Tax Top Income Shares in Lebanon (2010-2012) (Assouad 2015)

Income group	2010	2011	2012
Above USD 13,532	1.2	1.2	1.3
Above USD 41,194	0.9	0.9	1.0
Above USD 61,426	0.8	0.7	0.8
Above USD 144,610	0.4	0.4	0.4
Above USD 209,619	0.3	0.3	0.3
Above USD 567,828	0.1	0.1	0.1

First, the more we move up in the income brackets, the lesser the percentage increase in the tax rate, i.e. when the income bracket doubles at the lower ends, such as from the second to the third income bracket the income is doubled, and the tax rate increases by 1.75 (from 4 percent to 7 percent), whereas the move from the second to the third bracket results in a doubling of income but a tax increase of only 1.7. Finally, in the increase from the 5th to the last bracket (from income ranging between 60 million to 120 million, to an income above 120 million) the rate increases by only 1.42. As Assouad puts it, “the increase in the size of brackets in the lower brackets moves slower than the increase in the corresponding tax rates whereas in the higher brackets it moves faster than the increase in tax rates” (Assouad 2015). Second, the top marginal rate of taxes on wages and salaries (20 percent) is very close to the top marginal rate of taxes on profits from industrial, commercial and non-commercial activities. This shows that wage income and capital income are treated equally in terms of tax rates, keeping in mind that capital can evade taxes more effectively than labor as mentioned above. Third, Lebanese taxation treats all individuals equally with regards to family abatements. This means that it is blind, or ignores differences and inequalities in income, statuses and power of all individuals. Thus, all income earners, regardless of their income or wealth, are granted family abatements (USD 5000 yearly for all individuals and additional abatements varying according to the number of dependents in the household). This striking feature also contributes to offsetting redistributive functions of the personal income tax. Finally, Assouad’s study observes that as we move up along income groups, the share of non-taxable income increases and reaches 80 percent for the highest income group. In this regard, non-taxable income excludes rents and includes allowances, grants, benefits for employees/income from movable capital for profit taxpayers (which is taxed at 10 percent and can be reduced to 5 percent but it is not included in the personal income tax database). Also, this untaxable income is probably underestimated due to reasons mentioned above, and to in-kind or cash gifts and bonuses that might not be reported or untaxed.

Indirect taxes and informality

As mentioned earlier in the paper, more than two-thirds of the Lebanese tax revenues are generated through indirect taxes. In this regard, the value added tax (VAT) represented nearly 32 percent of total tax revenues whereas revenues from taxes on income represented only 27 percent in 2013 (author’s calculations). Moreover, VAT revenues constituted 52 percent of total revenues from indirect taxes in 2014 and excise taxes on gasoline, tobacco, cars and others represented 20 percent of those revenues in the same year (author’s calculations). Those taxes are transferred to consumers who pay them at the point of spending. Empirical findings show that the high ratio of consumption tax to income tax correlates with the high incidence of informality (Oliva, et al. 2007). Indeed, as mentioned above, consumption taxes and particularly the VAT are simple to collect and have a wide coverage and contributed to the increase in tax revenues, which was otherwise difficult due to the high levels of evasion particularly for income taxpayers. For the case of Lebanon, it is believed that the high incidence of indirect taxes, especially excise and VAT, contributed to increasing the tax burden on individuals, albeit not equitably, as its incidence is mostly felt among low and middle income groups, and more specifically amongst workers in the informal economy. The introduction of the VAT has contributed to taxing informal workers who are not taxed under the wage and salaries taxes as they engage in casual and irregular (i.e. informal) work arrangements and thus are not declared or registered.

In fact, formal wage employees constitute only 29 percent of the labor force, while informal wage employees constitute 19 percent and 5 percent of the labor force are contributing family workers and are also informal (Robalino and Sayed 2012). Furthermore, over 90 percent of enterprises employ less than 5 workers (Hamdan 2004), and are also likely to be informal, adding to that only 30 percent of Lebanese are covered by the National Social Security Fund (BLOMINVEST Bank 2015), i.e. there is a high incidence of non-declaration of workers. Adding to that, a joint study by the Central Administration for Statistics and the World Bank that the rate of poverty for monthly wage workers reaches 19 percent, and it increases to 28 percent for own-account workers, and 46 percent for casual workers (Central Administration for Statistics and World Bank Group 2015). On the other hand, migrant workers, who are not accounted for in official statistics, nearly equate in number the size of the Lebanese labor force in the private sector. It is estimated that there are around 220 thousand migrant domestic worker in Lebanon (Tayah 2012), and around 300 thousand Syrian workers (pre-2011) and estimated to constitute between 27 and 35 percent of the Lebanese labor force (World Bank Group 2013); and other nationalities as well, most of whom are engaged in informal employment arrangements. In sum, the share of informal employment in Lebanese is very significant, despite the fact that there are no official statistics on the matter, the IMF has estimated that over half of the labor force is employed in the informal sector (International Monetary Fund 2014). It is worth mentioning that an informal worker is not necessarily employed in unregistered businesses or firms, informal working arrangements can occur in formal and registered firms. This involves subcontracting through different forms, non-declaration of workers, and the manipulation of contracts through treating workers as contractors (Slavnic 2010). Thus, the surge of informal employment is a practice of firms to shift costs and risks to the workers themselves, while increasing profit margin through saving labor costs, hence shifting the tax burden as well.

The Value Added Tax law has exempted many products considered to be mostly consumed by the poor in order to attenuate its impact, especially with the absence of other re-distributional policies and measures that are usually implemented in parallel with VAT to offset its regressive impact. These exemptions include basic food items, butane, collective transport, education, health and other products. Nevertheless, these exemptions on the bottom that were meant to have a progressive component of the tax were accompanied by two other measures. First, regressive exemptions were put in place, such as yachts, air transport, precious and semi-precious stones, negotiable money, sale of built property, banking and financial services and others that are mostly consumed by high income groups. Second, the VAT registration annual threshold was lowered from LBP 225 million to LBP 150 million beginning 2005, meaning more products and smaller businesses are therefore taxed. In this regard, Salti and Chaaban (2009) computed the share of exempted products and services from VAT as a percentage of household total expenditures according to 5 quintiles, from the poorest to the richest. It shows that food items that represent 17.9 percent of household budget expenditure for the poorest compared to 9.2 percent for the richest showing the effectiveness of this type of exemption (Salti and Chaaban 2009). However, when we compute the total share of exemptions as percent of household expenditures we find that the as we move up along the quintiles, the share of exemptions slightly increase. Thus, the richer the household, the more is its share of exemptions, where the poorest household benefit from 32.8 percent of total exemptions compared to 33.6 percent for the richest.

Share of exempted goods and services consumption as percent of household total expenditure, by quintile (Salti and Chaaban 2009)

Exempted category	poorest	2	3	4	Richest	Overall
Food items	17.9	15.7	14.1	12	9.2	13.8
Butane	2.7	1.9	1.4	1.1	0.7	1.6
Collective transport	1.4	1.5	1.3	1.1	0.8	1.2
Education and books	4.5	7.6	8.7	11.2	13.2	9
Luxury and air transport	0	0.1	0.1	0.1	0.5	0.2
Financial and insurance	0.1	0.1	0.2	0.4	1	0.4
Health	6.2	6.3	6.8	7.1	8.2	6.9
Total exemption	32.8	33.2	32.6	33	33.6	33.1

The abovementioned reconfirms the unjust taxation system in Lebanon where the tax burden is mostly felt on middle and low income groups, and specifically on workers. The personal income tax targets mostly formal wage workers where VAT is regressive and taps on the income of informal workers. Moreover, indirect taxation, be it VAT, excise, custom tax or other, is not felt on businesses and on capital as it is transferred to consumers through increased prices. Thus, the regimes of direct and indirect taxation are unfavorable to labor, and consumers in general. On the other hand, this taxation regime not only lightens the burden borne by capital, and specifically by the business and economic elite that we mentioned throughout the paper, but also shifts the burden from capital to labor enabling to accrue further un-taxed profit. This is even more striking when examining tax exemptions and quasi-exemptions.

Tax (quasi) exemptions as a structural input of the Lebanese political economy

In order to better understand the weight of taxes in Lebanon on different income categories, the inequitable burden sharing between labor and capital, and between different sectors, examining exemptions and quasi-exemptions is key. There are numerous exemptions in Lebanese taxation schemes, but we are going to concentrate on specific ones that mostly express relations of power within the Lebanese political and economic system, i.e. those that express the political economy of taxation. First, a simple look at the GDP figures and composition by sector gives us a striking picture on favoring economic sectors over others, and more specifically rentier over productive activities. The table below shows the blatant inequality in taxes applied between productive sectors (industry and agriculture) and rentier sector (banks and real estate). The sectors with super profits are taxed the least which clearly shows the imbalance of power in the Lebanese economy where financial and real-estate elite who are connected and intertwined with the legislative and executive bodies are exempted or quasi-exempted from taxes, contrary to industrialists.

Economic activity, share of GDP in 2013 and tax applied (author's computation) ⁵⁵

Activity	Share of GDP in 2013	Tax applied in 2013
Agriculture, livestock and quarrying	4%	Corporate income tax of 15 percent and or personal income tax from 4 to 21 percent
Manufacture and Industry	8%	Corporate income tax of 15 percent and or personal income tax from 4 to 21 percent
Property sales transactions	21.5%	No real estate profit tax only registration fee. Revenues from registrations fees amounted to approximately 6% of sales value
Interests paid to bank depositors	13%	percent tax on interests paid 5 by depositors and then deducted from the corporate income tax paid by banks
Interests received by banks	20.5%	percent tax under the pretext 0 that bank profits are taxed according to the corporate income tax
The banks' portfolio in Eurobonds	USD 17,608 million	No tax on interest income from Eurobonds as per the decision 1/403 concerning the application of the article 51 of the law number 497/2003

Indeed, the myriad of tax incentives and exemptions illustrate the power dynamics in the Lebanese system where sectors with the least employment generation, or at least skilled employment, are encouraged. As illustrated above, the real estate sector constituting nearly 20 percent of GDP (BankMed 2015) is exempt from profit tax that are generated through price speculations. The same goes for the banking sector and the absence of any tax on deposits which reached LBP 209,793 billion (Association of Banks in Lebanon 2014), nearly 360 percent of GDP in 2013. These deposits are highly concentrated in the hands of a few clients, this can be seen through the concentration of credit (as a proxy measure since banks do not publish data about their depositors), where 1.5 percent of clients are responsible for 70 percent of disbursed loans in 2014 (Association of Banks in Lebanon 2014). This also reflects the inequitable meager tax on interest where small individual accounts (for instance savings accounts held by low or middle income wage earners) and large accounts pay the same rate of tax on interests. The absence of a tax on deposits or a progressive tax on income from interest is justified by the bank secrecy laws that hinder the access to information of bank clients. Thus the 5 percent tax is levied on the bulk of interests paid and not disaggregated according to accounts. The quasi-absence of taxes on interests, deposits and real-estate is not a coincidence, but conceals the marriage of these two sectors, the beneficiaries and those who bear the cost.

⁵⁵ Note that property sales transactions, interest paid and received, Eurobonds do not constitute a component of the GDP, their size is measured to GDP for the sake of comparison.

First, taking a look at the distribution of commercial bank credits in 2014 reveals that nearly 34 percent of credit (the biggest share aggregated and disaggregated relative to credit for other activities) was equally disbursed to construction and building (16.7 percent) and housing loans (17.2 percent) (Association of Banks in Lebanon 2016). Thus, commercial banks fund real-estate activities, and at the same time finances household purchase of property in the absence of real-estate price regulations and control leaving consumers vulnerable to the winds of speculation. It is worth mentioning that these loans are subsidized by the Central Bank in order to provide incentives for households to purchase houses, keeping in mind the absence of social housing in Lebanon. In parallel, commercial banks continue to purchase government treasury bills in order to finance the public debt and its service where banks' claims on the public sector reached LBP 56,308 billion, i.e. 21.3 percent of banks assets compared to 25.8 percent for the claims on the resident private sector. In general, the share of bank loans to the public sector and deposits at BDL reached 57.4 percent of bank assets in 2014 (Association of Banks in Lebanon 2016).

The abovementioned reveals that there is a clear process of extraction from tax payers to the bank and real estate sectors that goes as follows: individuals pay taxes to the government, which are in return used to finance public debt through the issuance of treasury bonds purchased by banks. The latter use the profit from financing public debt to fund construction and real-estate that are purchased by households through bank credit. Thus, citizens finance banks twice, first through taxes, second through housing loans that are subsidized by the Central Bank. This is compounded by the process of systemic emigration where between 15 and 30 thousand Lebanese emigrate yearly, who in return send remittances that constituted around 16 percent of GDP in 2015, and an average of 20 percent from 2004 to 2015 (World Bank data). These remittances compensate the stagnant income of residents and are absorbed by real-estate speculations and increase in prices as a result of monopolies as explained in the beginning of this paper. The described process of extraction was also witnessed in 2016 when the Central Bank did a swap operation under the pretext of enhancing its foreign exchange reserves. The BdL (Banque du Liban) has repurchased T-Bills in Lebanese pounds by paying a price for each bill of 139 percent of the original price (the original price plus half of the interests profit that would be been realized at maturity). The operation resulted in an excess of profit, originating from public tax payers money, amounting to an equivalent of nearly USD 5 billion (Zbib 2017) that are to be absorbed through issuing more treasury bills to be purchased by banks, thus resulting in more profit.

As mentioned above, there is a high presence of bankers within the political establishment. Moreover, "several real estate developers and contractors held, and still hold, prominent governmental positions, and several politicians have investments in the construction sector. One family alone is alleged to own, directly or indirectly, 59 real estate companies in Lebanon. Looking into publicly available information, it is immediately apparent that other prominent Lebanese politicians from across sectarian divides are also involved in real estate, together representing the main force driving the sector. The state's lower-level bureaucrats also have their share in the real estate sector, apparent for instance when municipality members are directly involved in issuing and reviewing permits for demolition and construction" (Saksouk-Saso and Bekdache 2015). Thus, it is not surprising that these sectors are quasi-exempted from taxes as they imply a direct process of extraction and regressive redistribution from productive capital and wage earners to rentier sectors and their representatives in government and parliament.

The design of tax structure in Lebanon to encourage rentier activities are further noticed through other exemptions and quasi-exemptions that clearly indicate the aim of public policy in engineering the Lebanese economy. The other components of the financial sector are off-shore companies and holding companies which are exempted from corporate tax on profit. However, holding companies are subject to a proportional tax on their capital and ranges from 2 to 6 percent, and other types of taxes related renting patterns and sale of share as per the legislative decree number 45. However, the offshore company pays an annual flat rate of LBP 1 million and its foreign employees benefit from a 30 percent reduction on their salary tax. The Lebanese law prohibits offshore companies to perform its activities in Lebanon, thus its profits are made outside, usually in tax havens and are thus untaxed. Nevertheless, the profits of these companies can be easily transferred to Lebanon through banking sector and its secrecy law that prohibits access to depositors' information. A look at the ownership of holding companies in Lebanon reveals once again that they are owned by members of the political elites, board members and shareholders of banks and real-estate companies and by sole import agents (Traboulsi 2016) whom Traboulsi calls the families consortium (the financial-commercial oligarchy that controls economic power).

Tax exemptions also reflect the sectarian aspect of the Lebanese system, more specifically the institutions through which the ruling sectarian political factions consolidate their base of loyalty, i.e. clientelism. Orphanages, retirement houses, dispensaries, and health institutions owned by charitable organizations are exempted from taxes on profit. Moreover, buildings owned by political parties and religious authorities are exempted from the property tax. Adding to that, remuneration of religious men for performing religious rituals are exempted from income tax on wages and salaries.

In addition to the abovementioned legal exemptions, there exists de-facto exemptions notably regarding private water and electricity supply. In fact, in 2008 households spent a total of USD 330 million on privately generated electricity and nearly USD 230 million on privately provided water (delivery trucks and gallons) (World Bank Group 2009). These activities by private parties providing water and electricity are illegal, thus untaxed, as the Lebanese state is by law the exclusive generator of electricity and provider of water. Nevertheless, these services are de-facto recognized by the authorities that even issued maximum price rates that private electricity providers should abide by.

Finally, and to conclude this section, in the last years there were two attempts to modify this tax structure and both failed. In 2012, amidst the debate on minimum wage adjustment in Lebanon, the former Minister of Labor Charbel Nahas proposed a "social wage scheme" where a universal health care coverage would be provided to all Lebanese citizens, a significant increase of the minimum wage along a set of incentives to boost the industrial sector. He proposed that this scheme would be funded by taxes on rentier activities, notable putting in place a 25 percent capital gains tax on real-estate (Zbib 2011). The second attempt came in the context of another labor conflict where the Union Coordination Committee (public sector workers, private and public schools teachers) demanded a wage adjustment as well.

In order to finance it, the government proposed a set of new tax measures, amongst which a 15 percent capital gain tax on real-estate and an increase of the tax on income from interests to 7 percent. Both proposals were fiercely opposed by the “economic committees”, i.e. the business elites through what Fairfield calls economic power and political power (Fairfield 2013). The first consists of creating economic obstacles to reform through the claim that the reform will reduce investment and cause capital flights. Thus, the business elite relentlessly propagated the idea that wage adjustment and imposing new taxes will cause economic collapse and bankrupt the country. The second “involves deliberate actions, like lobbying and various forms of collective action. Favorable relationships with policymakers are sources of political power that make such actions more likely to succeed” (Fairfield 2013). Indeed, the business elites in Lebanon resorted to such tactics where they exercised their influence on the political patrons of labor organizations in order to cut a backdoor deal in 2012 that would abort the reform proposition of the Minister of Labor.

5. Taxation and redistribution towards social justice

The tax justice network defines tax justice through a broad range of criteria that involve mutual obligations from taxpayers to the state, the state to taxpayers and states to states. For taxpayers, it means that they never evade their taxes, they do not seek to avoid them. As for the state, amongst many other criteria, it means that it requires each person (real or corporate entity or equity) pays taxes according to their means; limits the opportunity for tax avoidance; provides a system of access to information; administration of tax has to be and be seen to be free of corruption; tax received are openly and transparently accounted for. Moreover, the state has to avoid regressive taxation and incomplete tax systems that are not comprehensive in their scope or allow income to fall through loopholes. As for the obligations from states to states, they have to refrain from offering their sovereign space as tax havens that are ensured through secrecy jurisdictions. In sum, “taxes have to be planned as part of a system which includes welfare benefits and not in isolation, and they have to cover the broad scope of economic activity. In tax terms this means a just tax system has to have what is called a broad tax base” (Tax Justice Network 2012).

Based on the above definition and the characteristics of the Lebanese taxation system examined in this study, we can clearly conclude that it lacks the basic foundation of tax justice. It is felt in the common practice of evasion, regressive taxation (both consumption and income taxation), as well as the lack of transparency in terms of data availability and revenue allocation, as well as the presence of secrecy jurisdictions rendering Lebanon a tax heaven. Most importantly, the absence of tax justice is mainly felt through the function of taxes in Lebanon with regards to the overall economic system. Indeed, the redistributive function of taxation is quasi-absent as taxes are mainly levied in view to raise revenues for public debt and its service. We can even go as far as describing taxation in Lebanon as process of extraction where shares of income are extracted from low and middle-income categories, wage earners to channel them to politico-business elite. In addition to what was portrayed above, this can be mainly witnessed through three different indicators:

- The average indirect tax rate paid by low-income categories amounts to 13.5 percent, whereas it decreases to 6.6 percent for high income categories (Issa 2010).
- The significant imbalance in the functional distribution of income where the wage share of GDP has declined from 55 percent in 1975 to 16 to 22 percent in 2012 (Dibeh 2015) . This is an indicator of the transfer of wealth from labor to capital during this period.
- There is striking concentration of wealth in the hands of a few, where 1 percent of all deposit accounts hold about half of total deposits in the system (International Monetary Fund 2017). Adding to that, 1 percent of the population control 23.4 percent of the income, and 10 percent of the population control 57.1 percent of total income (Assouad 2017).

The present Lebanese tax system renders inequalities more acute and unjust as there is an absence of public policies that eschew and attenuate the inequitable burden of tax. For instance, in 2012 private spending on education reached 4.4 percent of GDP, while public spending reached only 1.6 percent of GDP (compared to 6.5 percent in Tunisia, 5.6 percent in Saudi Arabia and 5.4 percent in Morocco). The low public expenditure on education translated into a heavy burden on household expenditures where 10 percent of which goes to education (BankMed 2014). The share of public expenditure on education has been decreasing with time as it accounted for 2.6 percent in 2005. A similar outlook characterizes the health care sector where the public sector was only responsible for 30.7 percent of total health spending compared to 37.6 percent for households out of pocket spending. Moreover, only 28 percent of Lebanese are covered by the National Social Security Fund, 40 percent are covered by schemes for the army and public servants, and 44 percent neither have public nor private health coverage. This situation has also imposed a heavy toll on households where low income households spend 13 percent of their budget on health compared to 8 percent for higher income households (BLOMINVEST Bank 2015).

In parallel, there are nearly 800 health clinics operated by NGOs, sectarian parties, religious charities, community groups and local dominant families. Cammett asserts that “a combination of weak state capacity and resistance to reform by multiple stakeholders, including sectarian organizations, which hold great sway in public institutions, has curtailed efforts to build effective public regulation of the health sector. As a result, state agencies and social programs have evolved into lucrative sources of patronage for non-state providers, creating entrenched interests in the status quo. The relationship between the state and sectarian organizations in the health sector is almost parasitic. This state of affairs results from the power balance between the state and non-state actors, in which sectarian organizations, local feudal leaders, and religious charities with independent social bases face minimal restrictions on their activities and penetrate state institutions at all levels” (Cammett 2014)

Based on our findings and analysis, we can describe the Lebanese taxation system as a tool of fiscal violence. The term was coined by Elizondo and Santiso, where they “mean the entire lattice of the tax system, with its rules, processes and institutions, which can be distorted and altered to favor a particular social sector, the business world or a political group. We are speaking of the legal appropriation of tax resources through wages, pensions, subsidies and redemptions. This is similar to what the economic literature has called “rents”, but “fiscal violence” appears to describe the process better and is more specific.

As long as there is fiscal violence, delivering public goods for the benefit of the large majority becomes problematic” (Elizondo and Santiso 2009). As such, the processes expressed above: tax regimes and tax exemptions combined with the absence of public provision of welfare services, are tools to consolidate a system defining and preserving dynamics of powers that we tried to depict throughout the paper.

In this sense, redistribution and welfare in Lebanon does not occur through taxation regimes but through clientelism and patronage, i.e. through non-state actors who are part of the state apparatus. It is the shift from social protection to social safety nets where the social provision of services are not rights but rather entitlements granted on the basis of clientelism and sectarian loyalty. This is not channeled exclusively outside the frame of state institutions but also through them. In fact, the absence of universal health coverage, where only a third of the Lebanese is covered by the NSSF, is replaced by the coverage of the Ministry of Health that covers a certain percentage of hospital fees for the uninsured. Nevertheless the provision of the Ministry of Health are channeled through sectarian political parties. Also, recently a Member of Parliament proposed a draft law aiming at eradicating extreme poverty through conditional cash transfer to the poorest families (The Daily Star 2014). These are few examples demonstrating how social welfare and protection are deemed conditional, whereas the right to social protection is waning.

Towards tax justice

Throughout the paper we tried to show the characteristics of the taxation system in relation to social justice from a political economy perspective. It faces numerous technical problems related to corruption and enforcement of taxes, among others. Moreover, taxation seems to be more regressive rather than progressive even when it comes to progressive tax rates, that, however, have regressive outcomes. Nevertheless, the core challenge in reforming taxation and in introducing tax justice resides in the dynamics of power that prevail in the Lebanese political economy. More specifically the function and design of taxes which benefits the business-political elite, where taxes are a means of channeling wealth and resources from the bottom up. The paper argued that taxes (and exemptions) favor rentier activities while penalizing productive ones, they also favor informal labor relations rather than formal ones, and finally favor capital over labor. Therefore, reforming taxation in Lebanon is more of a structural and political issue at core rather than an economic or technical one. It ought to aim to redress these imbalances in order to deeply alter these relations of power and lay the foundations for social justice. Based on this, the paper proposes few measures. In this regard, it is important to mention that further studies need to be done in order to assess the impact and implications of the below measures on tax revenues and economic activities.

Social wage: In 2012, the former Minister of Labor proposed the “social wage” scheme in order to address stagnant wages in Lebanon. This scheme does not only involve raising the minimum wage, but most importantly it consists of unpaid social services, ranging from education and health to social protection. These services would be directly financed by taxes rather than by deductions from wages.

This scheme thus includes a universal health care protection covering all citizens whether formal workers, informal workers, unemployed or inactive. This universal health care scheme would neither be financed through deductions from wages nor through deductions from the profit of firms or its savings. Instead it would be solely funded through taxing rentier income (2011 زييب). The social wage would entail a series of tax measures as follows.

Taxing rents: Imposing a progressive rate on rentier income, including profits from sale of capital assets (such as real estate) as well as progressive tax on interest income and bank deposits. The rates of these taxes would be high where top marginal rates exceeding the existing ones on profit. This measure can be constraint by the bank secrecy law which does not disclose the size of bank deposits and thus the interest income earned by each depositor cannot be known. Therefore it would require either lifting bank secrecy laws or leaving a choice to depositors to disclose their accounts and those who do would benefit from a lower tax rate which would favor small depositors. As mentioned above, taxing rents would finance the social wage and at the same time impose a heavy cost on those activities where investors would have more incentive to channel their investments to productive activities.

Encouraging productive sectors and formal employment: As social service provisions, including universal health care, would be financed by taxes on rents, the contributions for health and maternity indemnities to the NSSF would be removed which will reduce labor costs for firms and encourage them to formalize the workers they employ. At the same time firms would be given certain conditional tax incentives to encourage their activities, such as tax cuts and exemptions for certain sectors. This would be in the frame of a general economic policies aimed at identifying productive sectors with growth and comparative advantage potential that would be encouraged to grow through low-cost credit and tax cuts (such as technology, green industries, agriculture, etc.).

Introducing the global income tax: on all income (except rents as specified above since a special tax would be levied) including income from profit of holding companies that would be taxed like other profits from income. Moreover, a restructuring of the different income brackets ought to be done while increasing top marginal rates in line with standards of middle and high income countries. This would also entail removing of a wide range of exemptions especially relating to the sectarian system that we mentioned throughout the paper.

Reforming tax on consumption: this would require two kind of measures. First, replacing the uniform VAT tax rate with different scales according to products where basic food products would be taxed less than others. At the same time removing the exemption on luxury items and taxing them with higher rates. Second, there should be efforts to relief consumers from additional expenses that they incur on their consumption especially those related to electricity, water and transportation. This would imply significant public investment to reform these three sectors without privatizing them to ensure their full and sustainable coverage. Its benefits would not only benefit individual consumers but would also reduce costs on productive sectors (such as industry and agriculture) as they will have the necessary infrastructure to conduct their operations without inducing additional costs.

Transparency: Measures to enhance tax transparency that would include periodical issuing of detailed tax returns according to their category and information about tax payers in terms of their income range and the share of taxes they pay. Moreover, in order to deter evasion, the names of high earning individuals and entities avoiding tax or not paying it should be made public. Also, amongst other measures, tax payers ought to be insulated from corruption through increasing their salaries, implementing more severe disciplinary measures on those who collude with tax payers, and assuring constant rotation and mobility of tax inspectors to minimize the risk of building compromising relations with taxpayers.

The above-mentioned measures would significantly restructure the existing imbalances in the Lebanese political economy and would redefine taxation as a measure for redistribution and as an essential public tool for an inclusive economic growth and development. Nevertheless, the main issue remains a political one as the question of who will implement these measures is unclear under the current structure. This is particularly striking with the intertwinement between the business and political elite coupled with the absence of powerful social actors (such as unions or other social movements) capable of imposing reform.

6. Concluding Remarks

Throughout the paper we tried to establish the dynamics and imbalance of power in the Lebanese system that the tax structure expresses. Twenty-six years after the end of the Lebanese civil war, the new political system and its socio-economic vision still fails to deliver basic services, social and physical infrastructure for its citizens. This is manifested through the recurrent water and energy provision crisis, especially for electricity sector draining public funds; the failure to collect garbage from streets for two years; the increasing health and education bills and burdens on households; and the increasing informality in the labor market.

Recently, in the end of 2017, the Government has passed modest taxation reforms and passed a budget for the first time in 12 years. The most prominent reforms in terms of taxation included, increasing VAT to 11 percent, increasing taxes on interest on income of moveable capital from 5 to 7 percent, increasing taxes on corporate profit from 15 to 17 percent, introduction of a capital gains tax of 15 percent, as well as increasing excise and stamp fees on a wide array of goods and services. Although these reforms seem to have a balanced effect on capital and labour, consumers and suppliers, they remain extremely short of achieving a sense of tax justice. Furthermore, they were introduced in order to counter-balance the cost of the new salary scale for public sector workers. Thus, these reforms were not introduced within an overall economic or social vision of the country, but as a mere revenue extraction measure. Thus, the government remains far from serious to meaningfully reform the tax system and to place it in a wider perspective of social justice, fairer economic system and inclusive, sustainable and equitable growth. On the contrary, the Lebanese economic system has been increasingly exclusionary and accentuating distributive and functional inequalities. The tax system has been merely a tool for revenues channeled into feeding the economic patterns that we attempted to depict in this paper.

This being said, having a technically sound taxation regime is of utmost importance and necessary, however it is not enough. The technical efforts ought to be accounted with the realization that the issue is more of a structural and politico-economic nature. The post-war period has shown that the ongoing economic policies and taxation are the backbones of the post-war power sharing formula and not merely a consequence of it. Thus, reforming taxation in a system resilient to reforms can be described as wishful thinking and further squandering of efforts as well as public and donors' funds. As mentioned above, one cannot expect reforms to be pushed for by the same elites who are benefiting from the current taxation regime. Therefore efforts are better allocated in the endeavors to create a counter social coalition composed of those who are harmed by the current state of affairs of tax regimes. Those are formal and informal workers, the unemployed, the self-employed, industrialists and those working in agriculture. Thus, efforts would be concentrated on raising awareness on the unequal and inequitable taxation, its purpose and consequences, as well as mobilizations to push for a tax system expressing social justice and an alternative economic pattern that benefits everyone.

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04

PALESTINE

Colonial Taxes in Palestine

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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 absciss. 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 taxes⁵⁷ 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 over⁵⁸ 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 GDP⁶²:

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 year⁶⁴.

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 2015⁶⁵, 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 professions⁶⁹ 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 website: <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 on⁷⁷. 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.

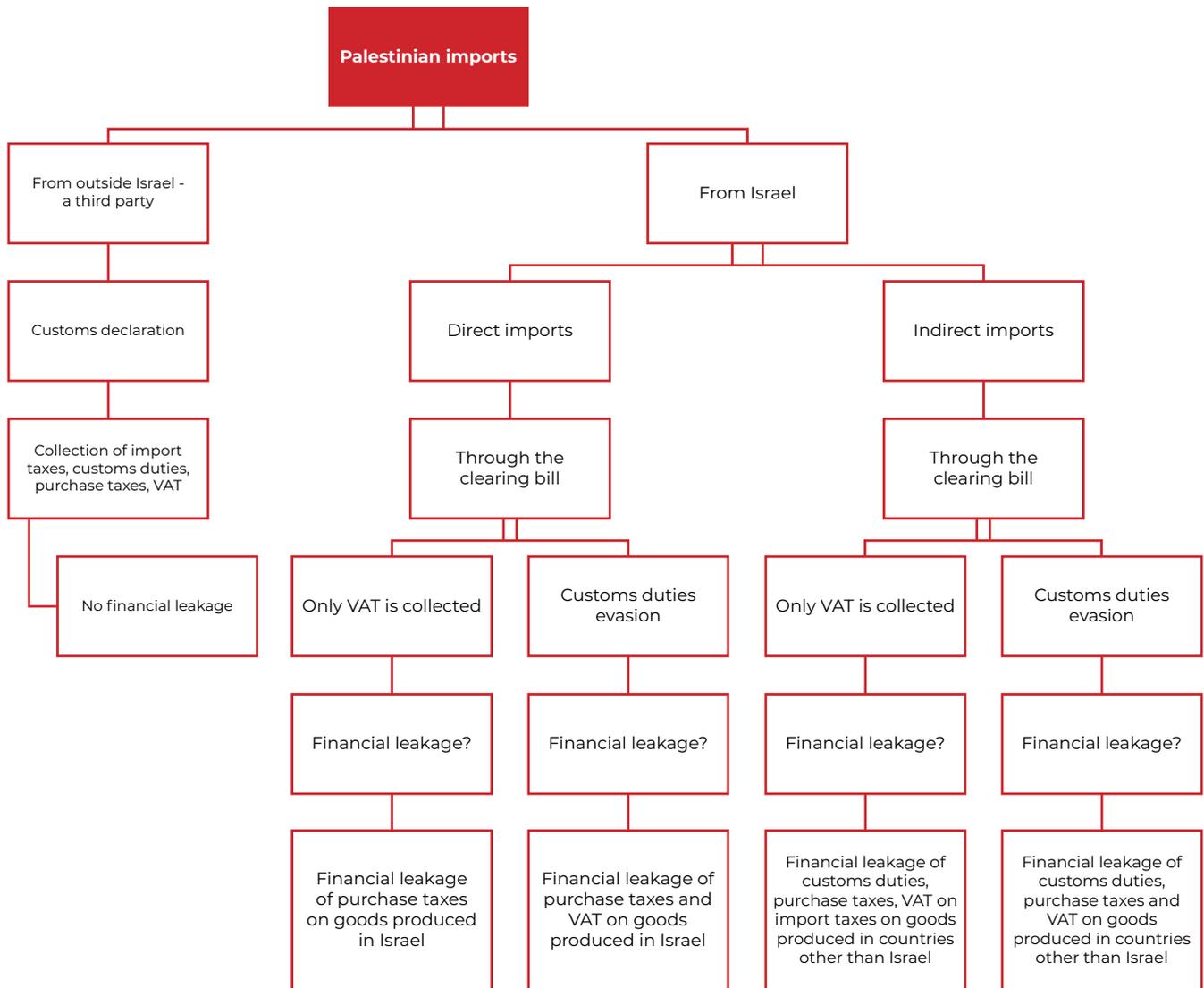
A number of studies tried to estimate the percentage of amounts deducted from Palestinian workers, and many estimates exceeded several billions of dollars. According to a recent Israeli study, "during 1970-1994, huge amounts belonging to Palestinian workers accumulated in the funds of the (Israeli) Ministry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

⁷⁶ Palestinian Central 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 revenues⁸⁴:

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 .

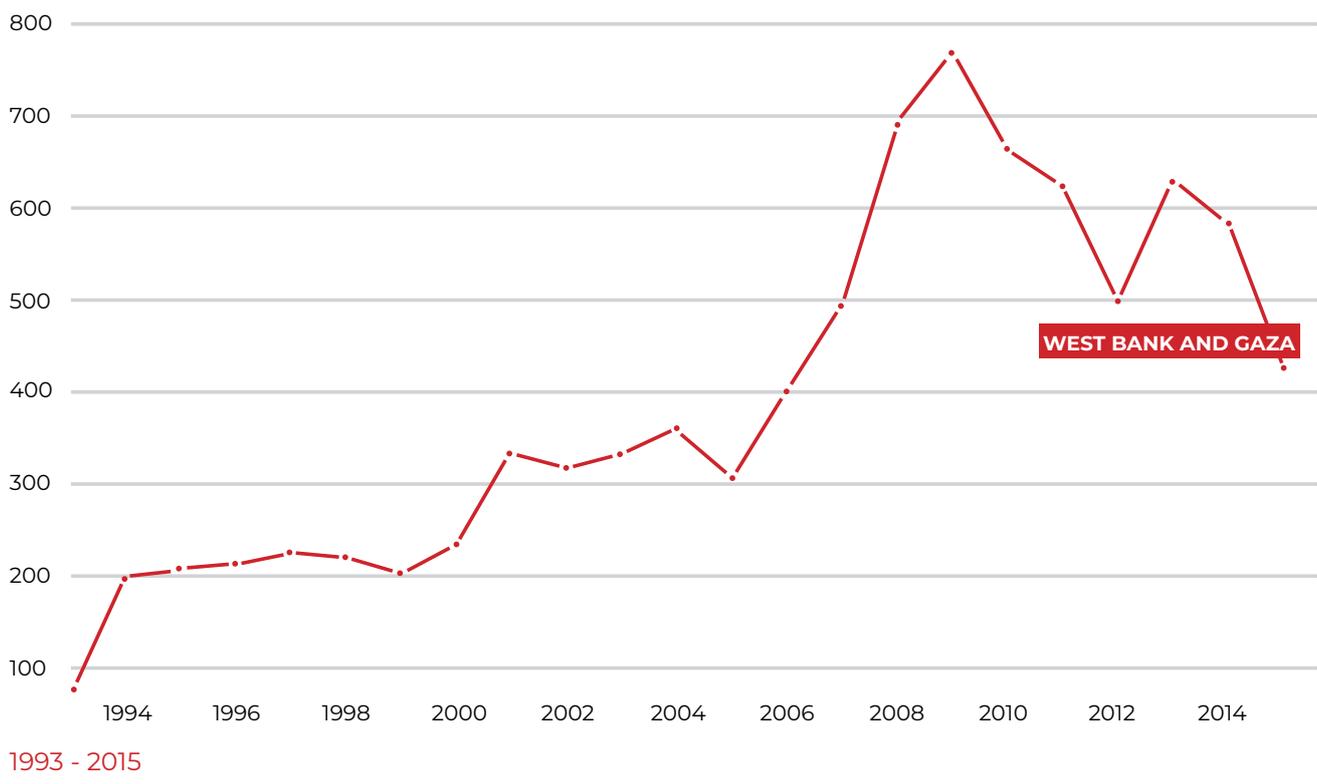
6. Public budget and tax revenues:

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 :

Aid Effectiveness

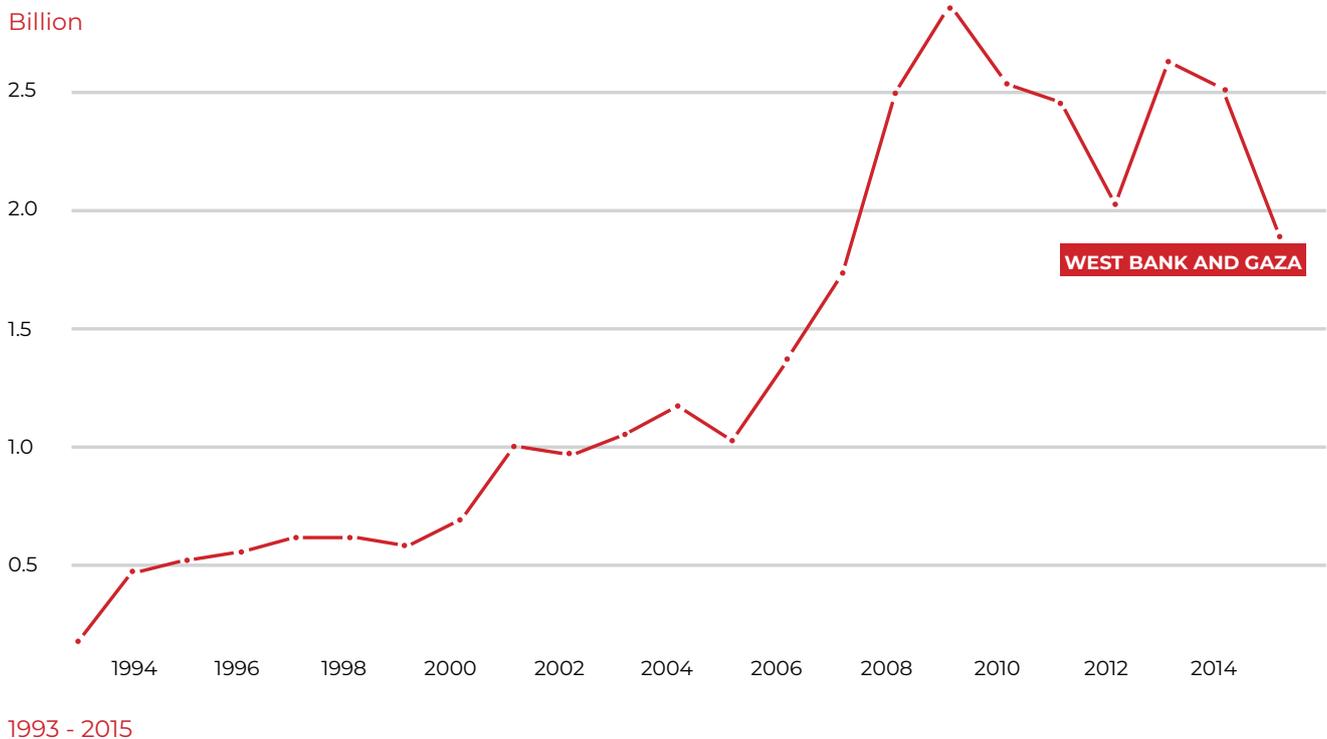
Net ODA received per capita (current US\$)



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.

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05

REGIONAL

**Evaluation of tax systems in a number of Arab countries
under the perspective of economic and social justice**

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1. General framework

The popular protests that began in Tunisia in December 2010 and spread in many parts of the Arab region were not only an objection to political tyranny, but also to unemployment, high prices and corruption. The term “corruption”, which is the most widely used term in the Arab Spring, reflects the core of the problem in the Arab region: “the absence of economic and social justice”. The slogan that was uttered in Tahrir Square in Cairo and in other Arab cities, “life, freedom, social justice” reflects in a nutshell the aspirations of Arab peoples, which were not limited to political and cultural freedoms – a prerequisite for democracy – but also to improved living conditions by providing decent work and a social protection framework in the face of poverty, unemployment and disease.

The Arab region has suffered for decades from the triad of poverty - instability - injustice. If the Arab region is generally less impoverished than South or East Asia and Central and East Africa because of oil resources in the first place, some countries such as Yemen, Mauritania and Sudan are on the list of poverty rates, as well as rural areas and city belts in countries such as Morocco, Egypt, Syria, Jordan, Palestine and Lebanon. Poverty varies from one Arab country to another and inside each country from one region to another. Poverty is associated with social instability that engenders social marginalization, which is manifested in two forms: first, expanding the ranks of workers in the informal or unstructured economy, whose workers do not have the most basic rights and health and social guarantees. It is an economy that absorbs a very important proportion of workers in most - if not all - Arab countries⁹²; second, the prevalence of unemployment, in which the Arab region holds the world record in general, especially youth and women unemployment, with a distinct rise in the unemployment of graduates of higher education⁹³.

Under this perspective, social injustice, which is the highest in the Arab region in terms of inequality in incomes, wealth and opportunities, has created a sharp sense of injustice among the poorest and most unstable segments of the society, even in most of the middle classes who have to struggle to cope with the continuous rise of prices, while the upper classes of the society are wealthy and spend extravagantly, which is an insult to low income people and even to the middle income category. According to Gini Coefficient to measure inequality⁹⁴, Arab countries reached a relatively high average of 33% with a difference between these countries. This rate increases in Jordan and Palestine to 36% but is only 30% in Egypt and Lebanon (UNDP, 2015).

⁹² For more information about this topic, check ANND, Monitor of socio-economic rights in Arab countries, report entitled: العمل غير المهيكل: الواقع والحقوق, Beirut, 2017

⁹³ *Ibide*

⁹⁴ It is worth noting that this coefficient should not be taken for granted because it suffers from multiple shortcomings both in its calculation methodology or because it does not take into account the differences in the socio-economic conditions of States. It may therefore indicate differences in income levels in a given country, but does not certainly provide sufficient or absolute evidence of credibility.

These data indicate an increase in inequality in all these countries after the structural economic reforms of the 1990s, knowing that it was relatively low before that. Therefore, high inequality explains the frustration that led to revolutions (Bibi and Nabli 2010).

The high level of economic and social inequality is the core of the problem, and this is due to the nature of the existing regimes in the Arab region and to their economic policies that reflect this nature. In this context, the advantages of the era of “socialism”, which was at its peak in the region in the sixties of the last century, when economic and social policies aimed at improving the conditions of citizens and achieving a range of social guarantees and bridging development gaps between social categories and different geographical regions, have been eliminated later in the nineties of the same century when neoliberal policies prevailed in the Arab region, like the whole world, under the supervision of the international financial institutions, led by the International Monetary Fund (IMF) and the World Bank. Neoliberal policies focused on limiting the role of the State to economic development investment and social insurance as well as to providing basic services to all citizens for the purposes of privatization and liberalizing commodity and capital markets, based on a dogmatic belief that the private sector should be the engine of economic growth and that market freedom and the law of supply and demand guarantee alone achieving developmental miracles. This doctrine has overlooked the fact that where the private sector has undertaken developmental tasks, it needed stability, the rule of law and an integrated legislative and institutional system that is not available in Arab countries. Moreover, these liberal policies have led to the restructuring of the economies of these countries towards the prevalence of fast-paced, low-risk, and revenue-based service and commercial sectors at the expense of productive sectors of a real and sustainable added value.

Therefore, the majority of the peoples of these countries have not benefited from the economic growth that has been achieved. On the contrary, the growth in some Arab countries benefited only the elite instead of the grassroots, which widened the gap between the rich and the poor in the region over the years. In fact, the increase in disparity, inequality, marginalization and social exclusion in the Arab region has hindered development, caused de-development, and created health and education problems, as well as extreme poverty and unemployment in the absence of comprehensive social protection and with the creation of a distorted legal environment based on the favoritism of some businessmen and investors without a clear strategy for the limits of the role of the private sector and foreign capitals.

It is clear in light of the above that the only way out of the current development crisis is by pursuing economic and social policies that are radically different from what the region has witnessed since the 1990s. The challenge of realizing social justice is at the forefront of this, and is based on two parts: justice in rights and justice in duties. Justice in rights is based on the equitable distribution of the State's income through public expenditure in the budget, giving absolute priority to improving and developing the situation of marginalized groups and regions and achieving development investment for State and society resources to provide decent job opportunities for all and promote productive economy, in contrast to the revenue-based economy in most Arab countries. Justice in duties is realized through the commitment of all natural and legal persons to pay their taxes and fair fees to provide adequate financial resources to the State to meet the needs of the society. This is the role of the tax system, which is at the heart of the issue of social justice. This justice is realized only through the progressive and differential tax that makes the members of the society contribute to financing the development of the country according to their individual potential and capacity, instead of the overwhelming injustice in the Arab region where waged workers bear the bulk of the tax burden, while those with high incomes, capitalists, wealthy people, owners of lucrative projects and corrupt power holders evade it to the maximum ⁹⁵.

Social justice is improved by two conditions: first, by securing sufficient financial revenues for the State through the fair tax on the income and wealth of institutions and individuals; and second by distributing State revenues fairly, in order to reduce social differences and ensure decent living for all. This is the true meaning of dignity which was a core slogan of popular protests.

Therefore, the analysis and evaluation of existing tax systems in a number of selected Arab countries and related operational policies and procedures is particularly important as these systems have been reviewed and modified several times and are not yet final. The tax system (policy, legislation and executive procedures) in any country is the product of the applicable socio-economic model. The economic model is a political choice by excellence and reflects the balance of powers in the society. The tax system represents the existing contradictions in economic interests among the different social categories. Hence, as a major component of the financial policy, the tax system plays a pivotal presumptive role in achieving economic and social justice by redistributing income and wealth to poor and low-income categories at the expense of rich and affluent people.

⁹⁵ Check for instance ANND study on the tax systems in six Arab countries in 2014

Any comprehensive evaluation effort of these systems on the bases of efficiency and equity will contribute to their development in a direction that is more in line with the conditions and characteristics of national economies and with the desired economic and social justice requirements. The issue of the effects of the tax policy and its appropriateness to social justice has been discussed only recently in the papers covering the Arab region (ANND, 2016, Abdel Karim 2016). There are, however, sufficient reasons and observations to support the hypothesis that the tax policy in most Arab countries does neither respond to social justice nor to gender factors, and therefore produces inequalities between rich and poor, and between both male and female taxpayers (Abdel Karim, 2017). Thus, empirical research in this field is gaining a special developmental significance and is justified.

1.1 Objectives of the study

This study aims at assessing the tax systems of four Arab non-oil countries namely Egypt, Lebanon, Jordan and Palestine from the perspective of economic and social justice. The study will attempt to answer the following research questions.

1. What are the most prominent features and characteristics of tax systems in the countries covered by the study? What are the similarities and differences between these systems?
2. To what extent do these systems respond to the requirements of economic and social justice?
3. How do these systems overlap with fundamental and common issues such as unstructured or informal labor and gender?
4. What are the most important reforms required on these systems to improve the level of tax justice and economic and social justice?

These four countries are somewhat similar in their scarcity of natural resources, the abundance of their human resources, their economic and social structures, the state of the economy, and in the management of the State through macroeconomic policies derived from the free market economy model, primarily the tax policy. In these four countries, the following stands out: first is the large size of external support to help the State meet its various commitments and spend within the general budget. This support works mainly according to social, economic and political conditions for which Arab countries pay a high price at the expense of their poor citizens. Second is the large size of the public debt and the high costs of its service, which tie up the possibilities of launching self-reliant development in these countries. This also threatens the idea of sustainable development for future generations because they are them who will pay essentially the price. Moreover, loans and debts impose more socio-economic conditions, notably a significant reduction in social spending, an increase in subsidies on commodities and fuel, and an increase in the burden on the poor by imposing high tax rates, which in turn leads to more poverty and injustice in the societies of these countries. The broader concept of justice is of particular importance in the Arab region. The political changes taking place in the Arab world have revealed that many categories of citizens in most countries of the region have long felt deprived of economic opportunities and public services, are prone to harassment by corrupt officials, and are excluded from the benefits of the high growth achieved in the early years of the third millennium (Pew Research Center, 2014).

1.2 Methodology of preparing the study

This study completes the research effort undertaken by ANND in cooperation with Christian Aid on the tax policies in the Arab region and their economic and social repercussions. As part of this project, a comparative study was conducted in 2014 on the tax systems in six Arab countries: Egypt, Jordan, Palestine, Lebanon, Tunisia and Morocco. This study draws on the results of the first study and is based on the detailed data and analysis provided in the national reports of the four target countries, as well as the discussions in the regional and national workshops. In addition, a comprehensive review of the published literature on tax justice in the Arab region and abroad has been carried out with the aim of developing standards and conceptual/theoretical bases used for comparisons and approaches in this study.

However, because national reports did neither follow a research methodology nor a unified structure and did not contain complete and identical data, this study may not bring useful comparisons between these countries on all levels. In order to overcome this problem, this study will address the common issues covered in the reports and will discuss other topics related to the issue of tax justice based on the available data and on other sources.

1.3 Concepts and terms of the study ⁹⁶

The tax potential is defined as the “maximum taxable revenues, taking into account the size and structure of GDP and the amount of public expenditure and standard of living of citizens, taking into account the ability of individuals to pay taxes and the government’s collection ability.” Therefore, the tax potential represents the optimal tax burden that reconcile the government’s need for tax revenues to cover its expenses and its ability to collect such revenues on the one hand, and the ability of the taxpayer to pay taxes and bear their burden on the other hand. According to Dalton (1991), there are two types of tax potential, the absolute tax potential of one state and the relative tax potential of two or more states.

The absolute tax potential of one state: What can be deducted as a tax without causing different negative effects on the macro economy and taxpayers like institutions and individuals. Therefore, the negative effects resulting from the application of a tax system mean that tax revenues exceed the absolute tax potential of that country. The first problem facing the specification of the absolute tax potential of the State is to determine the meaning of the negative effects, and if the tax potential should be linked to governmental spending. The public benefit resulting from government spending is supposed to compensate for the sacrifice of paying the tax.

⁹⁶ The definitions were taken from the following study:

دراسة عبدالكريم (2015)، تقييم قانون ضريبة الدخل الفلسطيني لعام 2011 وتعديلاته من منظور العدالة الاقتصادية والاجتماعية، مفتاح

The relative tax potential of two or more states: According to Dalton, comparing the contribution of tax revenues to public revenues between two countries gives a clear perception that one country may have exceeded the tax potential relative to the other, while the other may still be below that potential.

The tax burden is “the total taxes actually paid by the society, attributable to one of the indicators of the society’s income, such as GDP or GNP.”

Tax justice: A case or status which characterizes the tax through a number of affecting means to make the individual accept paying it relatively willingly. The individual does not pay the tax willingly unless he realizes that it contributes to covering the general expenses of the State commensurate with the share of each individual depending on his income, and if he is convinced that this share will ultimately affect his income only to the same extent that it affects the income of others. Tax justice is an important condition for economic and social justice, but is insufficient, as economic and social justice requires additional conditions and measures. Tax justice is linked to the principle of capacity to pay, which places two types of justice in the tax system: horizontal justice and vertical justice.

Horizontal justice is realized when taxpayers who have equal conditions in terms of income and family size, for example, pay the same amount of tax.

Vertical justice is realized when people who are facing different economic conditions are treated differently in the sense that their tax responsibilities are different and therefore people who are in a better economic situation have to pay more taxes than others.

Taxpayer: Every person obliged to pay, deduct, or supply the tax under the provisions of this decision by law.

Natural person: The individual in charge or the partner in a joint venture company, a limited partnership company, or any company specified by law.

Legal person: Any administration or institution that is by law a moral person, such as associations of all kinds, public shareholding companies or limited liability companies, shareholding partnership companies, and resident or non-resident foreign companies.

Taxable income: The total net income after deducting the rounded losses, exemptions and contributions respectively, as provided for in the law.

2. Conceptual framework for tax justice

Tax revenues are of particular importance in terms of financing public expenditures in all countries, which in turn stimulate the local economy and raise the level of social welfare of citizens in general. However, it is natural for the tax burden imposed on individuals and institutions to have reasonable limits commensurate with the size and structure of GDP and the level of public expenditure, the economic and social conditions of taxpayers, and the government's collection ability. This is the so-called tax potential of the economy. If the actual tax burden or tax effort, i.e. the ratio of actual tax revenues to GDP, exceeds the assumed or normative tax potential of the national economy, there is a fear that this would hamper the movement and direction of consumption and domestic and external investment.

At the same time, not only the size of the tax burden should be considered, but also its breakdown to different social categories. The tax burden may be commensurate with the tax potential of the economy, but this burden may not be distributed equitably. This burden may focus on vulnerable groups (poor) in the society, aggravating and perpetuating the existing social gaps and increasing the concentration of wealth in the hands of a minority. It is also important to consider the policy of exemptions and tax privileges granted to businesses and economic activities, which may not contribute to stimulating private investments in real productive sectors or those that do not rely on labor intensity or on bringing and settling modern technology.

The United Nations Technical Working Group identifies taxes as an important and essential resource to finance State expenditure on social services. Financing a sufficient level of public expenditure –including social safety nets while reducing the budget deficit – entails the collection of adequate tax revenues. Tax revenues (supplemented by external assistance in low-income countries) should be sufficient to finance expenditures without resorting to the inflation tax, which falls disproportionately on the poor, or inhibiting private sector investments yielding sustainable and real development benefits. Experience has shown that the tax structure, no matter how attractive it might be on paper, would be of little value if applied in an inefficient or corrupt manner. This indicates the need to simplify the tax system, where possible, and the importance of building a transparent, accountable and corruption-free tax administration, as well as reducing the extent of tax evasion. This will allow the expansion of the tax base, thereby reducing marginal tax rates, which will help reduce the disincentive effects while increasing the progressive aspect of taxes ⁹⁷.

⁹⁷ United Nations, 2000; Report of the High-level Technical Group on Financing for Development; Link: http://www.un.org/arabic/documents/reports/financing/A_55_1000.htm

“Tax justice” can also help meet the demands for greater socio-economic justice because tax systems are a vital meeting point between the State and its citizens. Inequality is at the forefront of the current general policy debate. In both developed and developing countries, policy makers and the public are discussing the aggravating inequalities in income and wealth observed in many countries and the role of economic policy in addressing them (IMF 2014a). While the desired degree of equality in income and wealth is ultimately a social choice for each sovereign country, there are strong arguments that sharp inequality harms the pace and quality of growth (Cingano 2014, Ostry and others 2014).

It is known that the tax revenues come from two main sources: direct taxes, i.e. the taxes on income and property, and indirect taxes, i.e. the value added tax or sales tax, purchase tax and customs duties. The share of each source in the total tax revenues varies from one country to another depending on the nature of the applicable tax system and the different structure of GDP.

In the event that most tax revenues come from indirect taxes (trade and consumption), rather than from direct taxes on income and wealth, there will be an imbalance in the tax structure, which necessitates assessing and reforming the negative implications it may have on the fairness of the entire tax system. Indirect taxes, especially VAT, are imposed on the final consumption of goods and services without discrimination between rich and poor, and without distinction between luxury and basic goods and services. Therefore, such taxes ignore the principle of economic and social justice among the different segments of the society.

VAT or sales tax has been considered useful in many countries because it distributes the tax burden on a broad tax base, although vigilance may be necessary to prevent that the bulk of this burden falls on the poor. A further imbalance occurs in the tax system as direct taxes collected by these countries are largely due to the entry of individuals (wages and salaries taken from the source), while the share of corporate income tax is low by all standards either because a huge number of large companies enjoy a tax exemption under the laws of investment encouragement for many years or because of the limited progressive tax rates on high incomes. These features raise legitimate questions about the fairness of the tax system in general ⁹⁸.

⁹⁸ Discussions of IMF experts, Tax justice in MENA countries, 2015

As for the income tax, the principle of progressive taxation is adopted in many countries of the world because it generates higher tax returns and tries to realize or approach social justice. On the other hand, investment is stimulated through the application of the investment promotion law, which includes tax exemptions for several renewable years. Here, a conflict of interest may arise among the different categories of the society. Therefore, one must not comply or pay attention to the objection of high income holders to reject the principle of progressive taxation on their incomes and profits. In the United States, for example, a person who earns \$ 70 thousand pays taxes more than those who earn \$ 50 thousand, because both are subject to different tax rates and brackets. Progressive taxes also work on redistributing the income gradually. Just one example is that 1% of the wealthiest Americans pay about a quarter of the total government taxes, while the tax contribution of the lowest quintile of the population, according to their income, is only 2%⁹⁹. Where are we from that? Progressive taxes always play a significant role in the redistribution of income among individuals by imposing higher tax rates on those with very high incomes.

Many countries also take another principle that is no less important than the principle of progressive tax justice, the principle of differentiation or discrimination based on the source of income and the economic and social conditions of taxpayers. For example, the tax imposition should not be equal between the income of high value-added agricultural activities for families and the macroeconomics of the developing world, and the income resulting from low value-added economic activities such as land transactions, and trading and speculation in financial markets. The tax should distinguish between the circumstances of taxpayers in terms of their need for education and health care. The differentiation also applies to trade and consumption taxes; goods and services are subject to different proportions depending on their importance in the consumer basket. Basic commodities consumed by all people are subject to a proportion that is less than that of luxury products which are consumed relatively more by the rich.

In order for the tax system to achieve its objectives under its financial, economic, and social dimensions, the following principles should be taken into consideration (Kharabsha, 1996):

1- Apply the principle of tax progressivity for the purpose of:

- Preventing the concentration of wealth in the hands of few acquirers and confirming the necessity to redistribute it for the benefit of all segments of the society.
- Imposing the progressivity in terms of easy income acquisition.
- Encouraging the establishment of public shareholding companies and small and medium enterprises.

2- Fix fair rates and brackets that are proportional to the capacity of the taxpayer after studying the tax potential and the tax burden.

⁹⁹ <http://www.alhayat.com/Articles/5826229> - US Congress Budget Office

3- Create an appropriate and stable investment climate to encourage and stimulate domestic and foreign investment, especially in the real productive sectors such as agriculture and industry.

4- Promote national savings to meet investment needs.

5- Stimulate the export of goods and services.

The effectiveness of public revenue management should be measured not only by increasing its size but also by the extent to which it is the implementation of a well thought out plan that links revenue indicators to overall economic and social indicators. The impact and structure of these revenues on social justice and overall welfare levels is more important. Poor or weak administrations may be able to collect higher public revenues but by focusing on weak economic sectors and marginalized social categories that are easy to tax, such as workers and employees in the public and private sectors, known as “source deduction.”

In this case, the tax burden and effort may be commensurate with the tax potential of the local economy, but on the other hand, it will not be distributed fairly among the taxpayers. In other words, the largest proportion of this burden may be borne by one social category which may not be the most fortunate. A part of the taxpayers may incur a greater tax burden than their fair share, while the other part bears a tax burden lower than what they have to bear. If this happens, the principle of economic and social justice, which is one of the most important pillars of the tax system, fades away.

Thus, most modern economic theories and applications give tax legislations, policies and procedures high importance in the framework of the efforts made by governments to provide an enabling environment for private investment in the economy and create an acceptable level of comprehensive and sustainable development based on the principle of equity in the distribution of wealth and income. The tax system is at the core of the social contract and is a powerful tool to reduce social and economic inequalities through the provision of social services and equitable economic opportunities through public spending. Taxation provides financial resources to support the State treasury, which in turn benefits from tax revenues to implement development and social projects and to provide public services to citizens. Therefore, citizens contribute to government expenditures through their relative capacity by providing a percentage of their income under the auspices and protection of the government.

The citizen's obligation to pay taxes is closely related to three main axes: the first is the citizen's understanding of tax regulations and laws given their simplicity. The second relates to the fairness of this regulation or law from the point of view of the citizen himself. The third axis relates to the extent to which citizens are aware of the feasibility of paying taxes, like public services that affect their lives, or of the government's efficiency in using these taxes in an efficient manner that affects welfare in general, and the extent of feeling citizenship and confidence in the integrity and efficiency of the government.

2.1 Tax justice: Concept, scale, and conditions

Justice is an expression of a moral state, which means that it has no absolute significance, it is not something material that any person can measure or calculate like other variables. In general, tax justice is a differentiation characteristic of the tax that takes shape through a number of means that affect the tax, making the taxpayer accept it relatively willingly. The taxpayer does not accept to pay the tax on his own unless he realizes that he is contributing to covering the public expenditure of the State with a share commensurate with that of each individual according to his income. Thus, tax justice is linked to the principle of payment capacity.

The pillars of tax justice are: the equal treatment of taxpayers and the generality and personalization of the tax. The first pillar of tax justice (the equal treatment of taxpayers) is the application of the principle of equality before the law, that is, all individuals are equal before the law without discrimination based on classes, religion, race, etc. Thus, the equal treatment of taxpayers includes imposing equal tax burdens on individuals. There are many theories related to this subject, such as the theory of equality in sacrifice and the theory of minimum sacrifice, as well as the assignment capacity. The second pillar of tax justice (the generality of the tax) means that taxes must be imposed on all incomes and wealth in any society with no exemptions without a legal justification. As for the third pillar of tax justice (the personalization of the tax), financial thinking considers that one of the means to realize justice in the distribution of tax burdens between taxpayers is the personalization of the tax; personal taxes are the taxes that take into account the personal and financial status of the taxpayer and treats singles and married people differently despite their equal income for example. Taxes seek to reduce the tax burden on large families, exempt some institutions and bodies that provide social services, and impose high taxes on some luxury goods or those that cause harmful social effects such as spirits and cigarettes.

Tax justice can be clarified by distinguishing between direct taxes and indirect ones. Direct taxes can be considered just taxes because they increase at a rate consistent with rising incomes, and progressive taxes are more equitable because the discretionary capacity of each person is affected by the size of his income or wealth. The assignment capacity will be greater for those with large incomes and wealth than for those with small incomes and wealth. The amount of income or wealth must be taken into consideration when imposing a tax, for that the tax rate increases as a result of either increase. In other words, the progressive tax is the only tax by which justice can be realized by breaking down the burden on taxpayers, whereas indirect taxes do not realize justice, unless their ratios differ between goods and services given the fact that these taxes are imposed on the consumed goods. Consequently, the burden of these taxes is not distributed according to the capacity of the taxpayer because the amount settled by the taxpayer is not commensurate with the size of his income. The lower the income is, the greater is the burden of these taxes and vice versa. Hence, the burden is greater on the poor classes, so these are sometimes known as non-democratic taxes.

Here we must refer to the relationship between tax justice and social justice. Tax justice is realized if all taxpayers in one economic center are subject to an equal tax burden, which makes them feel the justice of the tax and accept paying it relatively willingly. The rich bear a higher tax burden than the poor. On the other hand, social justice is realized through the role of the tax policy in seeking to reduce the differences in all the economic and social aspects for society members. Through taxes, income is distributed between the rich and the poor by cutting off and redistributing a part of the wealth and high incomes to the poor in the form of services provided by the State, such as social benefits for the unemployed and the elderly.

The bottom line is that social justice is possible through taxation in case of adopting a progressive and differential tax system seeking to impose taxes according to the ability of the taxpayers, taking account of their living conditions, and distinguishing between basic and luxury goods, thus reducing the sense of injustice, contributing to social justice, and increasing the welfare of society.

2.2 When tax justice is realized?

Taxation plays an important role in realizing justice. In most countries of the world, financial reforms in recent years have focused mainly on public expenditure policy and ignored the tax policy. These reforms did not achieve the desired development goals satisfactorily, highlighting the need for a more effective comprehensive reform that responds to justice in the distribution of income and wealth. This indicates the importance of reforming the tax policy as well. For example, IMF has encouraged the reform of subsidies in developing and Arab countries, coupled with strengthening social safety nets, which may have led to public finance savings but reduced subsidies to poor families and thus undermined the justice and social orientation of public expenditures. Taxes (or their absence) contribute more significantly to determining the relationship between citizens and the State in terms of equal treatment, burden-sharing and equitable economic opportunities. Reforming the public spending policy alone is not enough to improve justice, it could undermine it; thus, tax reform is also needed.

Justice is only a partial result of good tax systems. Efforts to realize tax justice should be consistent with a broader vision of the role of the State's public finances, including both income and expenditure. Reforms for justice also should not lose sight of the complexity of determining the appropriate level and structure of taxation for each country, which is a process depending on the economic and social context and the macroeconomic conditions of individual countries.

IMF discussions in 2015 on tax justice have outlined a number of conditions that must be met to realize this justice:

- The adequacy of collected tax revenues compared to the size of public expenditures and the standard tax potential of the economy, taking into account the equitable distribution of these revenues between direct and indirect taxes
- The distribution of the tax burden on taxpayers in proportion to the level of income and wealth and economic and social conditions, i.e. to take into account the progressive and differential aspect in the tax system
- The inclusiveness of the tax burden in a way that all taxpayers pay without exception their financial obligations; this means expanding the tax base (horizontal expansion) rather than opting for vertical expansion and reducing tax evasion and avoidance
- Implementing the tax policy and procedures efficiently, effectively, and equally before the law without favoritism or corruption and on the basis of transparency and accountability.

In the same context, Oxfam, in collaboration with Tax Justice Network Africa (TJNA), has developed a unified research framework to calculate the tax justice index and monitor changes from one year to another. This framework included the following key elements:

- An analytical description of the State's prevailing tax system
- How to distribute the tax burden on the taxpayers (individuals and companies, direct and indirect taxes) and the extent of progressivity and the preferential aspect of this system
- The adequacy of tax collections in terms of size, inclusiveness and tax evasion
- Effective and efficient management of this system and the availability of transparency and accountability in terms of management
- The size and distribution of public spending and determination of its response to development priorities and the needs of social vulnerable groups of basic services, economic opportunities and social protection

It seems there are significant intersections between tax justice indicators included in the document of IMF and Oxfam, with the exception of the recent addition of a public spending item by the latter. For the purposes of this study, the Oxfam model will be used to analyze and evaluate tax systems in targeted Arab countries under the perspective of economic and social justice.

3. Features and characteristics of tax systems in targeted arab countries

In this part of the study, we present the main characteristics of tax systems in the countries covered by the study, showing similarities and differences among them. The relationship between these characteristics and justice is indicated in principle where necessary. Various sources have been used to obtain statistical data that support the conclusions to describe these systems. These sources include IMF, the Arab Monetary Fund, ESCWA and UNDP reports for various years and previous ANND studies, including the recent national reports of these countries, which have been prepared as reference papers for this study.

- The majority of the tax systems in these countries are characterized by stable and diversified sources of revenue, but at lower levels than in other emerging market and developing countries. Moreover, tax systems suffer from a low level of progressivity, do not support equal opportunities between firms, and are very complex, making tax administration more difficult. The multiplicity of tax exemptions and tax rates often limits justice in the management of these systems. Moreover, the concentration of taxes on personal income and trade taxes reduces their ability to redistribute income, while wealth taxes, such as property taxes, play a limited role in mobilizing the financial resources of these countries.

- Tax revenues in these countries averaged 13% of GDP in 2013-2016, the highest in Palestine with 23%, and the lowest in Egypt with 11%. In Jordan and Lebanon, it was about 15%, which is less than the average of 17% in other emerging market countries and developing countries. This indicates a breach of the basis of tax efficiency, and that the tax effort and burden are less than the inherent or possible tax potential of the economies of these countries. Moreover, these revenues have fluctuated around that level since 1990 while a clear upward trend has taken place in emerging market countries and other developing countries.

- These countries have similar percentages in terms of the contribution of tax revenues in the financing of the total public expenditure in the budget amounting to about 70%, while the contribution of other non-tax revenues, either public investments or natural resources or services fees are limited and do not exceed 5% in Jordan and Palestine, and about 8% in Egypt and Lebanon. The rest of the public expenditure (budget deficit) is financed either through foreign aid or through domestic and external borrowing (public debt). This explains the increasing volume of public debt accumulated on these countries and the rising cost of service from one year to another. As a result of lower yields and increased spending, the budget deficit in most Arab countries increased. Thus, the total amount of owed public debt (both domestic and external) in all Arab countries increased by around 14.2% in 2014 in comparison with its previous level in 2012, equivalent to US \$ 590.6 billion against US \$ 516.8 billion in 2012. Therefore, public debt as a percentage of GDP increased from 48% in 2012 to 52.2% in 2014 (Arab Monetary Fund - Consolidated Report, 2015). The high volume of public debt and the cost of its service in most of the Arab countries is one of the most important challenges facing us, which is an obstacle to achieving an acceptable level of sustainable development and justice. This debt will also be borne by future generations and will harm their chances of growth and development leading to a decent and fair life.

In the four countries surveyed in particular, the average ratio of public debt to GDP is more than 100%, with a difference among countries, the highest being in Lebanon (more than 180%) and the lowest in Palestine, perhaps because of the recent emergence of the Palestinian National Authority and the size of foreign aid it receives (40%). In Jordan, this figure is almost 100% and the percentage is similar in Egypt. These countries have fallen in the so-called “debt trap”, a situation where the State cannot find solutions to the worsening public debt and its costs and has to continue borrowing to finance the deficit in its budget for that the money borrowed originally was not employed in sustainable development projects generating additional revenues in excess of the debt burden itself.

- The prevalence of indirect taxes over revenues in all these countries: Taxes on domestic trade in goods and services (indirect consumption), which consist of VAT, excise taxes and purchase taxes, represent the largest sources of tax revenues, averaging about 65% of tax revenues, in line with the average of emerging market and developing countries. These taxes yield revenues that are not less than 50% of the total revenues in Egypt and not more than 90% in Palestine, 70% in Jordan, and 65% in Lebanon. The value added tax has become the largest contributor to the revenues of these countries. For Lebanon, unlike many countries, VAT is levied at a uniform rate of 10 percent, which is transferred to the consumer, with exceptions including but not limited to basic food and education, as well as some luxury products, since its imposition in 2002. In Palestine, this unified tax imposed on all goods and services without exception is 16%. In Egypt, a new VAT law was issued by the first elected parliament after 30 June 2013, in September 2016, which raised the general tax rate from 10% to 13% and to 14% in 2017-2018. Jordan applies the sales tax at a uniform rate on all goods.

Purchase taxes and excise taxes are poorly designed, do not aim for justice and yield a limited income. These taxes in the four countries generate lower revenues than those of emerging market and developing countries, and do not specifically target goods and services consumed by high-income households. On the contrary, they target goods consumed by all citizens, such as fuel, tobacco, cars and spirits. In Palestine, for example, excise and purchase taxes are imposed at very high rates and are uniform on fuel and cars without any regard for justice.

- Taxes on international trade have an uneven tariff structure. Due to the liberalization of trade and accession of these countries to the WTO, the rate of customs duties in total tax revenues has fallen sharply and gradually in the past two decades. Trade liberalization has resulted in lower tariff levels, lower prices for imported production inputs and expansion of export markets. However, multiple tariffs and sometimes higher Most Favored Nation rates (the lowest rate borne by trade partners receiving preferential treatment) and other customs exemptions and privileges constitute an unequal basis for competition among firms in the region, weakening the effectiveness of international trade agreements and undermining the revenues derived from imports.

The average customs revenue of these countries is lower than 2% and less than 8% of tax revenues. In Lebanon, more than 84 percent of goods have a tariff rate between 0 and 5 percent, which is the lowest in the region (Disus and Ghalib 2006). A quality tax is imposed on a number of imported units and their weight or size, and not on their prices or value. (Awad 2002). In addition, Lebanon has signed multiple trade agreements, whether bilateral or multilateral, providing special treatment and exemptions for certain imported goods or in order to avoid double taxation on certain goods. These taxes no longer account for more than 4% of Egypt's tax revenues in recent years, down from record levels (25%) at the beginning of the third millennium. This percentage is not very different in Lebanon, Jordan and Palestine.

Since indirect taxes are paid by the poor and the rich with the same value at consumption, in all countries covered by the study, and are imposed on most commodities, if we exclude Egypt because of a low tax bracket on basic items, the poor and low-income people pay high taxes when consuming food and other necessities of life, which raises serious doubts about the fairness of the tax systems in force in these countries.

- Like emerging and developing market countries, the average contribution of corporate and individual income tax in the countries of the study is about one third of tax revenues. The bulk of income taxes come from individuals who work as waged workers (from the source) and not from companies. The largest contribution to income taxes is in Egypt, where it reaches about 50%, whereas it is around 25% in Lebanon, about 15% in Jordan, and much less in Palestine with only 8%.
- Personal income taxes generate lower revenues in comparison with emerging market and developing countries, and are often not highly progressive:
 - The highest personal income tax rate in all four countries is below the highest average rate in emerging market and developing countries. In addition to the decrease of the highest tax rates, high marginal tax income levels for the upper classes lead to the exclusion of a large proportion of well-off families. The highest income tax bracket in Egypt has an average rate of 25% paid only by those who earn at least ten times the average per capita income. Similarly, the recently adopted Jordanian income tax law added a third bracket with a tax rate of 20% for those earning seven times the per capita income. In Palestine, the highest tax rate was reduced from 20% to 15% in the recent amendment to the income tax law while applying only three tax brackets (5, 10 and 15%). In Lebanon, the highest tax rate is also 21% with the application of 5 brackets (ranging from 4 to 21%). In the light of the analysis of the Jordanian tax law, it turns out that the approved brackets of the progressivity of the tax commitment are limited and restricted to three close brackets as follows: 7% for the first ten thousand dinars, 14% for the next ten thousand dinars, and 20% for any amount more than that.

- The minimum exempted personal income per year in Lebanon and Egypt is much lower than the average wage and the national poverty line, and is closer in Palestine, but much higher than in Jordan. In Jordan, this amount is 24,000 dinars per year, which is three times the minimum wage in Palestine (36,000 Israeli Shekel per year, equivalent to 7,500 dinars) in which the costs of living are very similar. In Egypt, it does not exceed 12,000 Pounds per year, or less than 700 dollars. The lower the tax-free income is, the higher is the tax base and hence the revenues of personal income taxes. This explains the high contribution of this type to tax revenues in Egypt compared to other countries. On the other hand, this damages the tax justice. The minimum non-taxable income in these countries is uniform for all taxpayers regardless of the differences in their demographic characteristics and their special needs.
- The tax base in Jordan and Palestine does not include non-wage items such as capital gains and dividend payments on shares, bank interest and real estate transactions, which benefit the rich disproportionately. In Egypt, a tax on the profits of shares trading was recently imposed at 10%. In Lebanon, these profits are taxed at a uniform rate of 10%. Also in Lebanon, bank interest is taxed at 5%, unlike the other three countries. The profits of property deals are not subject to taxes in all these countries.
- Tax compliance is low, partly due to the size of the informal economy and the spread of cash payments of a part of the salaries. The weak technical and institutional capacity was transformed without verifying the real taxable income. The tax base is also not comprehensive because an important part of taxpayers working in liberal professions are not subject to follow-up and tax prosecution. The spread and complexity of tax deductions and reductions facilitate tax evasion. Random tax systems, based on estimates by tax commissioners, would facilitate tax evasion if not strictly enforced.
- Corporate income taxes are applied at relatively moderate rates, but suffer from multiple tax rates and wide tax expenditures. Over the past two decades, corporate income tax rates have fallen in all four countries (Mansour, 2015). These are currently similar to corporate income tax rates applied in emerging market and developing countries. While this decline may have improved competitiveness and broadened the tax base, the various economic sectors are taxed at varying rates and benefit from multiple exemptions. The maximum corporate income tax rate in most sectors is as follows: Jordan 35%, Egypt 25%, Lebanon and Palestine 15%. These percentages correspond to the highest personal income tax rate in Egypt and Palestine, but are higher in Jordan and lower in Lebanon. Some countries impose higher tax rates than some franchised companies, such as telecommunications companies and banks, as in Palestine, where the percentage rises to 20% instead of 15%. In Jordan, the profits of companies operating in the industrial sector are taxed at 14%, 24% in the telecommunications sector, electricity generation, basic mining companies, insurance and reinsurance companies, financial intermediaries, financial brokerage, financial companies and legal persons engaged in financial leasing activities, 35% in the banking sector and 20% for all legal persons in other activities (commercial, service, professional, etc.). In Lebanon and Egypt, the profits of all companies are subject without discrimination to a uniform tax rate of 15% and 25% respectively.

It is clear that the tax system in these countries favors companies not only because they impose very similar rates to those of individuals, but also because these companies enjoy large tax exemptions and for many years according to investment promotion laws and because they are given large deductions on their incomes against their expenses. They also have a greater ability than individuals to manage their tax files and have strong connections with political circles, which helps them avoid paying real and fair taxes and may sometimes allow them to evade paying the taxes. For these reasons combined, the contribution of the corporate income tax in total income taxes remained insignificant in the four countries.

• Property taxes currently play a minimal role in the four countries. These taxes exist in Palestine, Lebanon and Jordan, but do not exist in Egypt and yield much lower revenues than the average of emerging market and developing countries. While property taxes are still largely untapped worldwide (OECD, 2011), they nevertheless offer considerable capacities, especially in countries where wealth is concentrated in the real estate sector, as in the Arab region. It is also more difficult to evade these taxes due to the inability of the tax base to move. However, the application of these taxes requires significant investments in the creation of comprehensive real estate records and other administrative infrastructure. The low or absence of this type of tax is undoubtedly beneficial to rich people who are often property owners and leverage their large incomes.

Lebanon's exceptional case: This tax is imposed on the real estate shares and the resulting revenues; the first is a flat rate of 4 percent and the second is progressive rate ranging between 4 and 14 percent according to 5 revenue brackets. The second type of taxes is imposed when the property is leased or invested. The property includes the main building and all what is annexed to it as stated in the law issued in 1962. The tax is not imposed when the property is vacant either from its owner or from any tenant.

• These four countries suffer from the problem of tax evasion and avoidance. Tax evasion, in its various forms, is one of the biggest problems faced by governments in Palestine, Lebanon, Jordan and Egypt. Tax evasion is usually committed by high income people and companies. This proportion is lower among the low-income groups because their income is generally tax deductible from the source or through the payment of indirect taxes on consumption. Tax evasion is due to the absence of clear legal mechanisms and of a smooth and fair tax system, the fragility of institutional and supervisory action in the absence of democracy, and the existence of laws that sometimes facilitate evasion, particularly those related to foreign investment. In addition, most of the tax expenditure is not felt by citizens, because governments have to use the bulk of those taxes to cover the budget of salaries and large operational expenses of the huge bureaucracy of government, and the non-implementation of a tax law reflecting justice among citizens economically; this may be one of the most important factors of tax evasion. In this regard, the head of the Egyptian Tax Authority announced that the current tax system is unfair and favors the rich, helps tax evasion, and does not give the poor their rights. He then proposed a progressive tax system so that the middle classes do not bear the bulk of tax revenues.

Tax evasion is defined as an attempt by the taxpayer not to pay the due tax in whole or in part, using methods and ways contrary to the provisions of the tax system, through fraud¹⁰⁰. It is also defined as an act that conflicts with the law, i.e. the taxpayer refrains from paying the tax or reduces the tax to a value lower than the value to be complied with¹⁰¹. In fact, some taxpayers use gaps in the tax legislation to get rid of the tax wholly or at least partially. For example, the progressive tax is imposed on large companies (the case of Lebanon). One of these companies relies on splitting its activity through several smaller companies, but one holding company remains in terms of ownership, thereby benefiting from lower taxation rates¹⁰². In the case of Palestine, the large companies operating in the service areas resort to this type of gaps in addition to being registered as foreign companies which leverage the privileges of exemption included in the investment law. The law focuses on a limited number of traditional taxpayers (large taxpayers) and fixed income holders (employees), and on not expanding the tax base to include the entry of self-employed (lawyers, doctors, engineers). In order to infer the narrowness of the tax base and the inability of the tax system to estimate and monitor the actual entry of many categories of taxpayers, one study¹⁰³ estimated the value of the tax paid by self-employed workers, which did not exceed 270 Shekels per year as an average for the taxpayer, which means that the income of the people who work in liberal professions (doctor, engineer ..) does not exceed an average of 41,000 Shekels per year (3,417 Shekels per month). This income is unreal and is completely different from the actual income of this category.

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Egyptian companies with political connections are also more likely to receive exclusive privileges such as corporate tax or customs duties exemptions at around 15% (World Bank, 2015). In Jordan, the tax evasion reached about 800 to 1000 million dinars annually, according to official statements.

In Lebanon, there are no official estimates of tax evasion or the non-collection of taxes. But unofficial estimates suggest that only 30 percent of people who are supposed to pay taxes actually do so (Fadlallah 2008). There are three main reasons behind this tax evasion or avoidance: the high rate of informal labor in terms of the registration of employees or companies, legal gaps, and the political relations and corruption. These gaps in the laws help avoid tax payments or reduce the rates of the taxes that must be collected. For example, “under the income tax law, taxpayers can avoid payment by choosing the system they want to be taxed under or by manipulating the legal documents of their company. As a result, some taxpayers transfer their income from the individual tax system to the corporate tax, or create “fake” individual companies to reduce their taxes, thereby reducing the value of the declared income compared to the real per capita income (Aswad 2015). In addition, several reports indicated the high level of corruption in the collection of taxes, particularly the cases of collusion between tax inspectors and taxpayers. The Lebanese Transparency Association (LTA) stresses that “all tax reforms do not lead to any results if the State does not promote the supervisory authorities on its employees who benefit from this weakness and use their administrative expertise to circumvent the law and exempt the taxpayers from paying their legal dues for personal services. Some civil servants even overlook the tax evasion practices of some companies.” (Lebanese Transparency Association, 2014) Finally, banking secrecy laws play a key role in facilitating tax evasion practices by establishing offshore companies and income tax-exempt holding companies. These companies reap profits abroad in tax havens and then transfer those profits into bank accounts in Lebanon where they are also exempt from taxes.

The table below shows the size of tax evasion in these countries.

Table number (1): The size of tax evasion in the four Arab countries

State	Size of evasion
Palestine	20% of the total due taxes, 500-600 million USD
Jordan	800 million Dinars annually, 4% of GDP
Lebanon	70% of the taxpayers
Egypt	350 billion Pounds, 40% of tax revenues, and about 15% of GDP

Source: Collections from different reports.

Preliminary conclusions: Tax revenues collected in the four countries are less than the tax potential of these countries' economies and less than the revenues in other emerging and developing countries, and are insufficient to finance public expenditure. This has exacerbated the debt problem in these countries. What is most important than the insufficiency of these taxes is that they are not distributed fairly to individual and corporate taxpayers, and the bulk of the burden is borne by the less privileged. The most important sources of injustice in the tax systems of these countries are the following: 1) the prevalence of indirect taxes (consumption taxes) over the structure of revenues at the expense of direct taxes (income, wealth and capital), 2) The prevalence of personal income taxes from wages (deduction from the source) over the structure of income taxes at the expense of companies, liberal professions and capital activities, 3) Insufficient minimum non-taxable incomes to cover living expenses and personal taxpayers' conditions, while companies enjoy a wide range of exemptions and tax expenses, 4) Non-progressive income tax rates and limited brackets. Based on the above data, we can describe the tax system in these countries as a tool of financial violence (Abdo, 2017). The term was defined by Carlos Elizondo and Javier Santesso as "the complete structure of the tax system, including laws, practices and institutions, which can be distorted in favor of a particular social sector: the world of businessmen or a political group." Talk here is about grabbing tax sources via wages, pensions, government subsidies and repayments. This process is similar to what the economic dictionary defines as "income-based", but the term "financial violence" seems better and more accurate for the description.

4. To what extent the tax justice is realized in the target countries?

In this part of the study, we try to answer some important questions that measure the level of tax justice in the four countries based on the data given in the previous section.

First: Do taxpayers pay their due taxes? In other words, are the taxes collected commensurate with the standard tax potential of the economies of these countries?

Available evidence suggests that the tax burden in these countries is less than the tax potential of their economies and less than that of the emerging and developing markets. Indirect taxes dominate the structure of tax revenues, which mostly come from VAT or sales tax. Given the nature of this type of tax, it can be said that the level of collections is satisfactory and covers most of the assumed tax base and does not suffer from a real problem of tax evasion or avoidance as in the case of income tax. In contrast, income taxes deducted from the source on the wages constitute a very high percentage of the total income tax on personal income, indicating that taxes paid by self-employed (e.g. liberal professions), unstructured or informal economy workers, and non-wage income taxes are very low. Low-wage earners are not expected to pay much of the income tax because there is a minimum tax-free income, and corporate taxes are low and not commensurate with their profits either because of tax evasion, tax avoidance or due to the benefits and the generous tax exemptions they are granted compared to individuals.

This leads to the first conclusion that tax systems in these countries are still underperforming, and that the tax base is still narrower than supposed. There are a small number of taxpayers who do not pay their taxes either because of their success in evading or avoiding them or because no tax files were originally opened for them. This may be due to several reasons, including the legal gaps that govern these systems and their complexities, the inefficiency of their management, not feeling their fairness by taxpayers, and the low level of their development returns. It is clear that companies and rich people benefit from these gaps and therefore pay less than their tax obligations.

Second: Is the tax burden equally distributed?

Usually, an appropriate tax is not levied on the returns of the various forms of savings, wealth and investments of individuals and companies. Tax systems focus on two main sources: labor income and the added value associated with the consumption of goods and services. Thus, in many countries, mainly in the public sector, civil servants bear the brunt of direct taxes. In addition, the minimum level of incomes exempted from taxes in these countries, with the exception of Jordan, is relatively low and not commensurate with the cost of living, and do not take into consideration family conditions and taxpayers' individual needs. Moreover, the distinction between internal parties - associated with ruling families, the armed forces, political groups or trade blocs - and foreign investments is reflected in the form of substantially different and largely unfair tax burdens. In these countries, the typical tool of discrimination is the tax exemption, which often takes the form of tax exemptions for certain activities, such as export, tourism and agriculture, and for large capital firms to encourage private investment, while ignoring the fact that more than 95% of businesses in these countries are micro, small or medium enterprises. As for VAT or the sales tax (indirect tax on consumption), these are inherently unfair because they do not take account of the differences between citizens on the basis of their consumer behavior and financial capacities. Everyone pays the same amount of tax regardless of their level of income, especially if the rates of this tax are uniform and do not distinguish between basic and other goods, as is the case in most of these countries.

The second conclusion is that tax systems in these countries do not distribute the tax burden fairly on taxpayers, but rather favor capitalists and rich people at the expense of poor and less advantaged categories.

Third: Is there a sufficient degree of progressivity in the tax systems of these countries?

Even regardless of the distortive effect of large-scale exemptions, many tax systems in these countries are characterized by a limited degree of progressivity. For example, tax revenues depend largely on indirect taxes as opposed to direct taxes, and property and capital gains taxes are often absent. The personal income tax brackets are limited and do not exceed three or four, except for Lebanon. The marginal differences in tax rates imposed on these brackets are not significant. Therefore, the marginal tax paid by taxpayers does not increase in proportion to the marginal increases in their incomes. In the end, poor and middle-income people will pay higher taxes than the rich as a percentage of their income. This is in addition to the fact that the rate of tax on corporate profits is similar or relatively lower than the upper limit of the personal income tax rate.

The third conclusion is that the tax systems applied in these countries are not sufficiently progressive; on the contrary, they may be regressive. The absence of progressivity in these systems is a sufficient reason for their lack of fairness.

Fourth: Should tax revenues be higher, and is this consistent with the principle of justice? In other words, are these revenues sufficient or can they be increased without harming justice?

The performance of tax revenues in these countries is lower than that of emerging and other developing countries, indicating that they can be increased. Higher revenues will work on expanding the financial space available to the governments of these countries and will allow for more spending on the social protection for the poor, infrastructure, health care and education. The alternative is to continue to rely on aid or borrowing to finance the chronic deficits in their budgets. Whether aid or debt, they have economic and political repercussions that are detrimental to any real and sustainable development effort. Foreign aid makes these countries more vulnerable to pressure to pass political and economic agendas that may not necessarily be in line with the priorities, needs and interests of these countries and their different community groups. There is no better evidence than obliging these countries to undertake a package of liberal economic reforms that harmed the poor, favored capitalists, and thus betrayed the foundations of justice. On the other hand, borrowing is not only a burden on future generations but also benefits the holders of government debt instruments, who are usually a minority with privileges.

As a result of lower yields and increased spending, the budget deficit in most Arab countries increased. Thus, the total outstanding public debt (both internal and external) in all Arab countries increased by 14.2% in 2014, equivalent to US \$ 590.6 billion from US \$ 516.8 billion in 2012. Hence, public debt increased as a percentage of GDP from 48% in 2012 to 52.2% in 2014. The high level of public debt and the cost of its service in most Arab countries is one of our most important challenges preventing us from achieving an acceptable level of sustainable and equitable development. This debt will also be borne by future generations and will harm the opportunities of these generations to grow and develop to have a decent and just life.

Therefore, improving revenues is not only crucial to finance the natural increase in spending to meet growing social demands, with rising poverty and unemployment, the revitalization of the economy in the wake of the global financial crisis and the emergence of political transformations in the Arab world; it is also possible in light of the narrow tax base in these countries and the non-inclusiveness of the tax system for all taxpayers. In these countries, tax revenues can be increased without causing a further imbalance of justice through the horizontal expansion of tax collection (tax coverage), reducing tax evasion and avoidance, which often benefits the rich and not the poor.

The fourth conclusion is that these countries can increase their tax revenues to finance their public expenditures and channel a larger share for social expenditure to meet the needs of the poor, and to avoid further aggravation of the problem of public debt and dependence on foreign aid. In order for the poor and waged workers not to bear most of this increase in tax collection, this should be done through horizontal expansion, tax inclusiveness, reducing evasion and narrowing the margins of avoidance.

Fifth: On the other side of the public budget, is the structure of public expenditure of these countries consistent with the requirements of development and does it respond to the basic needs (education, health and social protection), which often benefit vulnerable groups? In other words, do these expenses benefit all citizens fairly? Does the financial policy of these countries work on achieving the goal of wealth and income redistribution between social classes?

It is not enough for countries to collect taxes fairly; they must spend their revenues to meet the basic needs of people and provide conditions for comprehensive and balanced development. Public spending must be carried out with the highest degree of responsibility, transparency and maturity and with minimal waste of public money. Tax justice (duties) must be accompanied by spending justice (rights) for the picture to be complete. If the size of public spending is an important element in assessing the State's financial policy, the structure of this spending and how it is distributed in different aspects is the most important factor in assessing its fairness and its response to the economic and social challenges facing the society. Over the past years, especially in the wake of the global financial crisis in 2008 and the fall in oil prices, public spending in these countries has been declining steadily, reducing State welfare and increasing social discontent. This resulted in the deterioration of social services and the decline of public investment (development expenditure), which has affected the poor and marginalized regions. In this context, Arab revolutions were led by middle class members who abandoned authoritarian alliances and turned into champions of change driven by the absence of social and economic development opportunities as well as anger at the apparent and growing inequalities.

Government spending is now increasingly focused on wages and operating expenses, while social benefits of poor households, expenditures on health services and education, and expenditures on public investment in infrastructure have either declined or stagnated. The share of high-intensity economic sectors in which poor rural households are active, such as agriculture and light-craft industries (informal economy), has declined. The share of salaries and operating expenses in the public budget of these countries rose to between 60% in Egypt and Lebanon and 75% in Palestine and Jordan of total public expenditure. Unlike public investments (development expenditures), current spending has a positive but unsustainable impact on economic development. Public investment has been one of the most affected factors during the years of slowing economic growth, declining in most countries from about 14% or 15% of GDP during the 1980s and early 1990s, to 6% or 7% in the region at the beginning of the new millennium (IMF). The decline was clearer in countries like Jordan, Egypt, and Palestine. Over time, the decline in investment in infrastructure and other State property has had an increasingly negative impact on economic growth, especially in the marginalized areas, which have been left behind, and thus most revolutions started there in 2011. For example, in Palestine, the proportion of development expenditures of the total budget does not exceed 5%.

The freezing of budgets for health and education has led to a decline in the level of human development and to a deteriorating quality of services, especially the services that the poor cannot afford in light of the growth of the private sector (commoditization of basic services). This deterioration can be observed in all countries of the world; access to public health services and education is one of the most important ways for the poor to escape the poverty trap over generations.

The other component, which fell further during the wave of financial reform and the trend towards privatization in these countries is the subsidization of consumer goods. For example, IMF encouraged the reform of subsidies in the region and around the world coupled with the strengthening of social safety nets ¹⁰⁴ (IMF 2014c). These subsidies accounted for 8.5% of regional GDP and 22% of total government returns in 2010, much more so than in most developing regions, taking into account that this type of subsidies is almost nonexistent in developed economies. Subsidies levels vary within the Arab region, with 12 countries out of 20 in the region reaching more than 5% of their GDP. Half of these subsidies are for oil products and bread, followed by electricity (IMF 2013). The decline in government subsidies for basic commodities was clearer in Egypt and Jordan than in Lebanon and Palestine, knowing that subsidies dropped significantly during the years of high energy prices. For example, these expenditures were several times higher than the total expenditure on health or education in those two countries.

¹⁰⁴ Egypt's energy subsidies (including oil, natural gas and electricity) accounted for 0.7% of global GDP in 2011 and 2013. (Coady and others, 2015). The phased reform strategy involves first raising consumer prices to cover supply costs and then incorporating an efficient tax level.

In addition, these countries suffer from weak public expenditure management; there are widespread cases of corruption and unequal opportunities, whether in employment or in the transfer of procurement and bidding contracts, and there are no democratic control and accountability tools (parliamentary, partisan and popular) for public money spending. Thus, this spending may involve a certain level of waste in public money, which takes either the form of unjustified and unnecessary spending that can be dispensed and reallocated to other aspects that are more urgent and useful, or illegal spending for the benefit of senior officials and businessmen close to the government. In both cases, it is the social and economic justice of these countries that is the victim.

Example: The current Lebanese tax system creates severe and inequitable forms of inequality in the absence of public policies that mitigate and avoid the unfairness of the tax burden. The contribution of expenditure on private education in 2012, for example, was 4.4% of GDP, while the expenditure on public education in the same year was 1.6% (6.5% in Tunisia, 5.6% in Saudi Arabia and 5.4% in Morocco). This decline in public expenditure on education translates into a heavy burden on families with a 10% expenditure on education (BankMed 2015). Public spending on education has been decreasing over time, with 2.6% in 2005. In the healthcare sector, the situation is similar with the private sector accounting for 30.7 percent of health spending, while breadwinners covered 37.6 percent of their families' healthcare costs. In addition, the National Social Security Fund covers only 28% of the Lebanese, while the army and public service programs cover 40%, and 44% remain without health coverage, whether private or public. This situation has also caused a heavy burden on families; Low-income families spend 13 percent of their budget on health while high-income families spend 8 percent (BLOM Invest Bank 2015).

Fifth conclusion: double injustice: Public expenditures in these countries are not only non-developmental, but also do not involve social implications. These expenditures are dominated by current expenditures, especially salaries and operating expenses, and the lowest share is for development expenditures. On the level of sectors, most of these expenditures go to the governance and security sector at the expense of the social, economic and infrastructure sectors. These features do not support efforts to achieve sustainable, comprehensive and balanced development and do not serve justice in spending tax revenues. Also, public expenditure management is flabby, which may cause a waste of public money and lost opportunities for the less fortunate groups in obtaining basic services and employment. Thus, the government spending in these countries does not contribute to addressing the damage caused by tax systems, but on the contrary, it exacerbates injustice.

Sixth: Is the application of tax systems fair?

Even well-designed systems may lack fair implementation. For example, in the four countries, companies and social categories with political connections may be more likely to receive exclusive privileges and exemptions from income taxes or customs duties (World Bank, 2015). The negotiation ability of firms to settle their tax files is greater than that of small taxpayers, the same applies to their ability to evade and avoid taxes. The implementation of the tax rules relates to the perceptions and impressions of citizens about the spread of corruption. Corruption in revenue management by taxpayers or tax collectors is common in these countries. On the one hand, taxpayers may hide part of their taxable income or pay bribes to change their tax obligations or avoid registration. On the other hand, tax collectors may use the threat of excessive taxation to blackmail taxpayers. Companies may pay bribes to senior officials in order to benefit from exemptions. Regardless of the form or extent of corruption, it undermines the respect for the tax system and thus weakens compliance and reduces collection.

Corruption also leaves impressions of inequities in the tax system, for two main reasons:

1. The system that allows discretionary and arbitrary (and therefore uneven) application of tax rules cannot by definition be fair to taxpayers.
2. Corruption in the collection of taxes may have a downward effect. The upper income groups are the ones who benefit the most from underestimating or evading taxes, and are the least likely to be blackmailed. By contrast, poorer segments have fewer opportunities to evade the tax, and their income is much easier to be overestimated, exposing them to potential blackmail by the tax administration.

Finally, the tax revenue management, which is a heavy burden on taxpayers in these countries, seems to be strongly linked to perceptions of corruption. This relationship seems to be applicable to the four surveyed countries, suggesting that greater transparency and the simplification of procedures may go a long way in tackling corruption, ultimately contributing to a fairer tax system and increasing revenue collection while strengthening compliance. The four countries are on the list of the most corrupt countries according to Transparency International's Corruption Perceptions Index in recent years.

Despite the reforms in the management of tax systems in these countries in the past years, they are still flabby and backward in terms of inclusiveness, transparency and accountability. In addition, several reports indicate that the rate of corruption in taxes collection, in particular cases of collusion between tax inspectors and taxpayers, is high compared to emerging market countries. In this regard, LTA stresses that "all tax reforms do not lead to any results if the State does not promote the supervisory authorities on its employees who benefit from this weakness and use their administrative expertise to circumvent the law and exempt the taxpayers from paying their legal dues for personal services. Some civil servants even overlook the tax evasion practices of some companies." (Lebanese Transparency Association, 2014) Finally, banking secrecy laws play a key role in facilitating tax evasion practices by establishing offshore companies and income tax-exempt holding companies. These companies reap profits abroad in tax havens and then transfer those profits into bank accounts in Lebanon where they are also exempt from taxes.

In this regard, Lebanon scored 81 in the 2011 Index, with the highest score being 100, placing Lebanon among the most classified countries in terms of the classification of judicial authorities (the Tax Justice Network 2012). In short, “Lebanon offers, along with bank secrecy, a series of massive tax exemptions for non-residents, including on profits, postage fees on contracts, inheritance taxes, corporate income tax, dividends, capital gains, interest, etc. This combination of tax exemptions and confidentiality makes Lebanon a “first class” tax haven or a judicial system that maintains secrecy, but it is a very limited haven in which there are only few alternative financial sectors that can be relied on in the event of abandoning bank secrecy. This relative lack of alternatives makes reforms in this sector very difficult, for several reasons, including the limited options available because of the decisions previously taken. Moreover, bankers outside the borders do not enjoy many skills that can be easily transferred to other more productive jobs.

The sixth conclusion is that the management of tax systems in these countries is weak and flabby and lacks transparency, simplicity, control and accountability. In addition, its application favors big companies and taxpayers who are close to the government. These gaps in the application of tax systems offer a greater opportunity for the rich to evade or avoid taxes, and public corruption in these countries does not help much in the management of tax systems fairly and efficiently.

5. Specific cases of tax justice

This part of the study deals with two issues that intersect with tax justice so as to affect and be affected by it. These two issues are: tax justice from a gender perspective and informal or unstructured labor.

5.1 Gendered Taxation

Gender inequality in tax policies is a matter of concern in both developed and developing countries in recent years (UNDP, 2015, ESCWA, 2012 and 2015). As such, the analysis of tax policy and its impact on gender equality has been a major theme in the debate on public finances and development financing, as well as in the debate on government responsibility towards its citizens (Stutsky, 1997, Capraro, 2014). Taxation is not only a source of revenue for the government, but also an effective tool for redistributing wealth and income between generations, regions and gender classes. Thus, mainstreaming a gender equality perspective into the public tax policy can significantly improve the quality of public policy and reduce the gaps in wealth, income and opportunities commonly found between men and women in most societies. Gender equality and the empowerment of women are a development goal on their own, as set out in Millennium Development Goal 3 and in the declaration of the Convention on the Elimination of All Forms of Discrimination against Women (CEDAW). More recently, this goal has been reaffirmed in the United Nations 2030 Sustainable Development Plan.

It is worth noting that gender biases or gender inequality in the tax system should be seen in the context of the broader challenge of social injustice and as an integral part of it. Gender equality is a necessary but insufficient condition for social justice. The latter goal requires a fair, equitable and full set of socio-economic policies, including taxation on all categories of citizens: men versus women and, more importantly, the poor versus the rich. The tax system is not expected to be free from gender biases, if it is not socially fair in the first place (i.e. determining the tax burden of the taxpayers on the basis of affordability and capacity).

In the case of the Arab region, research papers that analyze the tax policy from a gender perspective are limited, if any. Tax policies in the Arab region have been changing and were unpredictable over the past decade, making it important to assess the resulting burden on men and women to provide sufficient guidance to policy makers and stakeholders during policy reform (International Food Policy Research Institute, 2012.)

In recognition of the importance of mainstreaming the gender perspective in the completion of the strategic objective of sustainable and inclusive development, ANND recently implemented a research project aimed at providing an empirical and comparative analysis of gender biases in tax systems in three selected countries, Lebanon, Egypt and Tunisia ¹⁰⁵.

This study has reached a number of conclusions, the most important of which are the following:

- Indicators show that economic policies, social relations of production and reproduction, and labor market dynamics in these three countries are discriminatory against women. Understanding the economic situation of women is essential to analyze how they are affected by tax policies and how gender norms and practices have a clear role in the formulation of these laws and policies. In fact, tax policies are a reflection of gender inequity and an integral part of economic policies, and can either enhance or mitigate the effects of structural gender inequality and inequity.
- Inequality of tax policies, because taxes are regressive, as the rich allocate an amount as a percentage of their income to pay VAT and other indirect taxes which is less than what is paid by the poor, who are mostly women. It is clear that tax systems in these countries are socially unjust and therefore may produce explicit and implicit gender biases. There are explicit biases in the texts of tax laws, as in Lebanon, and there are more implicit and more important biases reflected in the negative tax implications on the living situation of women in these three countries.

¹⁰⁵ Refer to نصر عبد الكريم، عدم المساواة الجندرية في النظم الضريبية للبلدان العربية: حالة لبنان وتونس ومصر، February 2017

5.2 Unstructured or informal labor ¹⁰⁶

The labor market in these countries is divided into two parts, sometimes separated by a steep gap: structured labor and unstructured labor. The percentage of unstructured labor in the labor market in the four countries under study has increased for several reasons: 1) The weak ability of the formal economy to create decent and sufficient jobs to accommodate the large number of young people entering the labor market annually, which guarantees economic and social rights. 2) Implement structural economic reforms that led to openness, privatization and trade liberalization in the framework of adopting the liberal approach according to the requirements of globalization. 3) Technological developments in production processes, reducing the demand for labor, especially the unskilled. Finally, 4) the large-scale migration of young people from rural areas to cities in pursuit of jobs that will guarantee them a decent living.

The proportion of informal workers in the total labor force in Jordan is 50%, the majority of whom are waged workers in the structured economic sectors. In Lebanon, this percentage rises to 73% (90% for immigrants and 59% for Lebanese). The share of women in informal labor in Lebanon is lower than that of men (44% compared to men 63%). This is due to the concentration of women in the formal government sector. In Egypt, the ratio is 59%, similar to Lebanon, and is dominated by fragile and non-permanent waged labor. The percentage in Palestine does not differ significantly from that in Jordan, Lebanon and Egypt, and amounts to 50%.

Informal labor is mostly waged in these countries, contrary to the popular belief. This negates the idea that informal labor is an option and not a necessity. Young people have no choice but to engage in any type of work that provides for living.

But the question that arises here is: What is the relationship between informal labor and tax justice?

- It is known that informal labor does not provide fair and regular wages or social security as in the case of formal labor. The average wage in the informal labor market is often much lower than that of formal jobs, less than the minimum wage and the national poverty line. This means that the wages of workers in the informal economy are lower than the minimum taxable income and therefore their owners do not pay taxes. In contrast, informal workers (waged or self-employed) do not enjoy any economic and social rights such as social security, health insurance, etc.

Thus, informal labor results in a reduction in the size of collected tax revenues and in turn increases the demand for basic government services.

¹⁰⁶ This part of the study is essentially based on the considerations included in a report on informal labor published by the Monitor of economic and social policies in the Arab world, ANND, 2017

Since the majority of unskilled waged workers are poor people who do not pay taxes because of their low income, tax justice is not affected. However, they fall under economic and social injustice in its broader sense, especially when countries do not provide them with their basic needs. A small group of the informal labor works for small and family enterprises, particularly in the agricultural sector and traditional handicrafts. This category earns relatively high incomes and is therefore supposed to be taxed. But it is out of the tax coverage and therefore practices tax evasion unintentionally. This may harm the tax justice of other waged categories in the formal economy paying income tax even though their incomes are less than those who are self-employed.

6. Suggestions to improve tax justice

The study found that the tax systems in the four countries covered in the study - Egypt, Lebanon, Jordan and Palestine - are not fair and do not serve their social objective, which is to contribute to the redistribution of incomes and wealth among the various categories of the society. Moreover, these systems not only fail to mobilize sufficient financial resources for the State treasury to cover its public expenditures, but also suffer from weak and flabby management that allows for the spread of the phenomenon of tax evasion and avoidance, and results in a lack of transparency, oversight and parliamentary, legal and popular accountability. In order to improve the level of tax justice, the study proposes a set of recommendations:

A. Budget pattern

The pattern or type of budget in these countries is classified as an items budget that does not involve developmental dimensions or effects. This type of budget has been criticized for its “neutrality” towards the needs and priorities of the society and for not being linked to national plans. This kind of budget is also inflexible and does not allow an efficient use of available resources.

- Governments need to shift their budgets from the pattern that depends on items to the pattern of programs and performance. This shift could start gradually with the budgets of ministries that provide basic social services such as education, health and employment.
- Governments need gender responsive budgeting by adopting economic and social policies that respond to the different and various needs of males and females. This is an important tool to reduce gender inequality as it is the case in almost all Arab countries.

B. Tax policy

Justice and efficiency considerations should take a prominent place in tax reforms rather than increasing the tax burden on individuals in these resource-poor countries. In fact, these countries suffer from the concentration of the tax burden, so that the less advantaged categories bear the greater part of it. Therefore, taxpayers, especially middle-class and low-income groups, do not have the ability to pay more taxes. Rather, taxes must be restructured to transfer part of this burden to the rich and large companies by:

- The tax policy needs restructuring to ensure more focus on the collection of direct tax revenues (income and wealth) rather than indirect taxes (consumption taxes).

- It is important to increase the number of tax brackets to ensure better social equity. It is also important to raise marginal tax rates on the personal income of high income categories and for investment activities, which will yield large and rapid profits and will reduce tax rates for low-income and small and medium-sized businesses. Thus, it is necessary to adopt a progressive tax policy on income.
- Redesign tax incentives to target not only large investments, but also SMEs, which account for more than 95% of business in these countries. These investments contribute significantly to both GDP and the labor market. This type of companies also plays a very important role in redistributing income and wealth and reducing disparities between regions in the same country.
- Tax incentives must also target entrepreneurship initiatives by young men and women.
- The tax burden must be reconsidered so as to contribute to social justice. This requires a review of the current tax base to include non-traditional activities and non-productive and non-value-added activities that generate high and rapid profits such as real estate transactions and speculations in financial markets. At the same time, it is important to increase exemptions for low-income people, individuals and businesses engaged in productive activities, located in fragile rural areas. Further tax exemptions for higher value-added activities and those that create new jobs are expected. Control methods must be applied to ensure that companies pay the actual taxes due on their incomes and reduce their tax evasion practices.
- It is also necessary to consider economic and social objectives. It is important to take into account the social and economic conditions of taxpayers, such as the provision of tax advantages according to dependency, university education and health, and allowing the preferential treatment of productive activities and vulnerable areas. Income tax laws should be reformed to increase the minimum income exempt from taxation, taking into account the country's poverty lines and inflation rate.
- Grant full tax exemptions for agricultural income and pensions.
- Revise VAT to be based on the distinction between luxury and basic goods.
- Remove any clear bias against women in tax laws in these countries. Separate tax reductions should be granted to both breadwinners in the families in accordance with Articles 1, 2, 5, 13, 15 and 16 of the Convention on the Elimination of All Forms of Discrimination against Women and General Recommendation No. 21 which prohibits any gender discrimination in the tax system.
- Apply strict rules to combat all forms of corruption and tax evasion in tax departments; ensure transparency and specify clear and decisive instructions regarding the assessment of the fair taxable income by tax officials. The horizontal rather than the vertical expansion of the tax collection should be increased so as to increase the collected tax revenues but by expanding the tax base so as not to increase the tax burden on committed taxpayers.
- Expand the circle of community participation, give preference to dialogue and discussion with the social groups affected by the tax law, and enhance the role of civil society by broadening the concept and applications of community accountability. This will contribute to enhancing cooperation, the level of acceptance and to understanding the government's goals and objectives in the field of taxation, as well as to external control over the performance of executive bodies.

C. Governmental spending

- Restructure government spending by reallocating more resources to public investments because of their positive economic outcomes in the long run and on sustainable development.
- Reconsider the share of wages from total expenditure (very high) by auditing this bill to exclude the payment of wages for fictitious employees, i.e. what is known as “purifying the payroll bill”.
- Increase the financial resources for social security and service programs that benefit the poor more than others. There is also a need to create, design and fund programs to generate jobs for young men and women.
- Increase the resources allocated to productive sectors such as agriculture and light and traditional transformative industries.
- Support for basic goods and services must be restructured to target the poor more than the rich.
- Government spending on arms and security must be reduced or rationalized and any financial surpluses should be channeled to social services and economic empowerment.

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