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Tax Justice and Sustainable Development in the Arab Region:
Lessons from tax systems in four countries

Based on research conducted by Dr Nasser Abdel Karim

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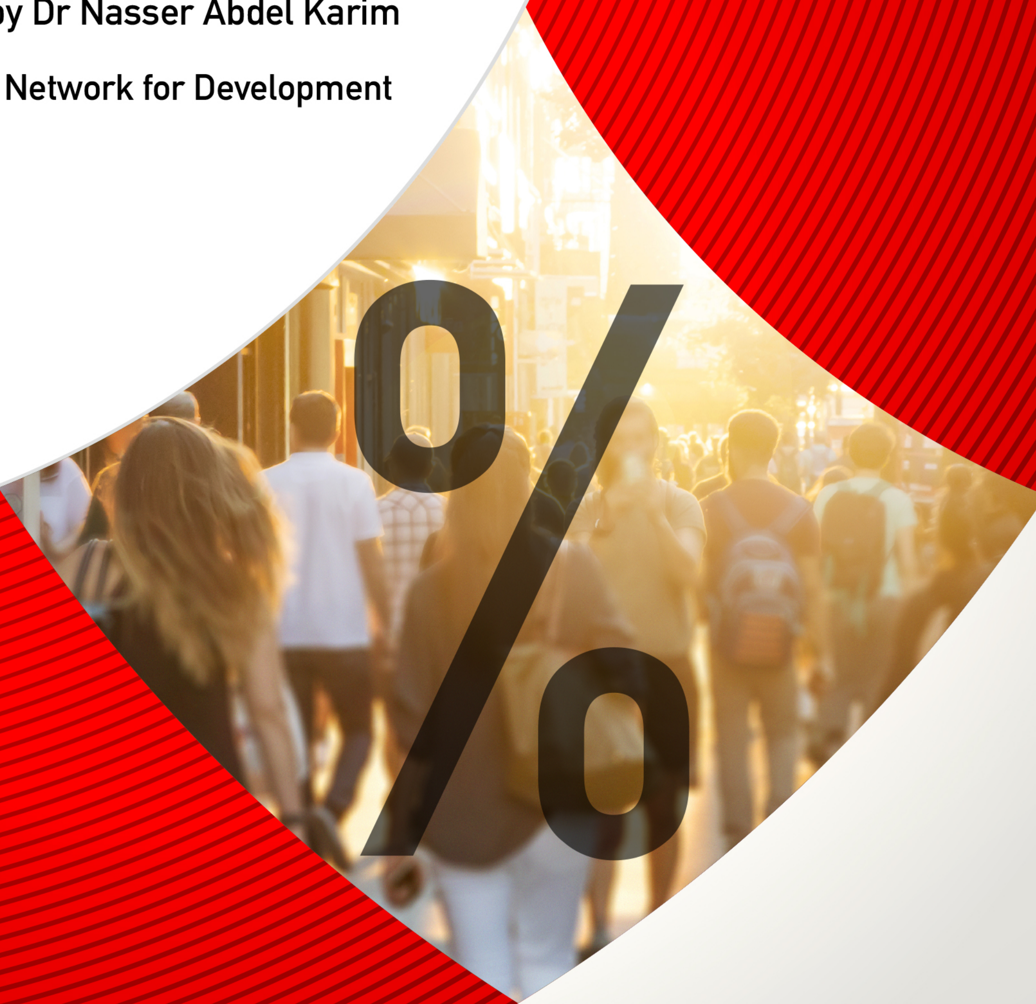

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Abbreviations

ANND	Arab Network for NGO Development
CEDAW	Convention on the Elimination of All Forms of Discrimination against Women
CSO	civil society organisation
FfD	Financing for Development
GDP	gross domestic product
IMF	International Monetary Fund
OECD	Organization for Economic Co-operation and Development.
SDGs	Sustainable Development Goals
VAT	value added tax

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Executive summary

This report considers how tax and fiscal systems in the Arab region could better support social justice and delivery of the Sustainable Development Goals in the context of economic challenges and Arab movements for social justice. It is part of a wider effort towards promoting tax justice led by ANND with the support of the Ford Foundation and Christian Aid, and accompanies a tax justice toolkit and the report, Tax and Gender Justice in the Arab Region.

Through this report we aim to support civil society efforts toward promoting tax justice and to invite greater engagement on the subject by civil society in the region and beyond. We highlight how civil society groups can support governments to ensure that tax and fiscal policies are relevant to national contexts, promote social justice and are coherent with national development and human rights commitments. Citizens and civil society organisations have a right to scrutinise tax and fiscal policies and are well placed to comment on how these could be improved, based on the specific concerns and issues faced by people living in poverty or affected by social and economic inequalities.

The introductory section considers the role tax policy plays in sustainable development, including as a source of financing and as an instrument for reducing inequalities. It looks at the emergence of civil society campaigns for tax justice and the issues specific to the Arab region, including economic trends that have contributed to widening inequality in the region.

Important concepts and issues against which tax systems can be assessed from a tax justice perspective are explained. These include the need to ensure tax systems raise sufficient revenues to finance public goods while avoiding negative effects such as discouraging domestic or external investments; avoiding unnecessary tax incentives that are a drain on public resources; designing tax systems to ensure the equitable distribution of tax burdens; the impact of tax systems on gender equality; and the need to addresfs tax evasion and avoidance.

The impact of tax systems on social justice must also be understood in the wider context of fiscal policy – the different uses of tax revenues to finance public services, deliver social protection and subsidise essential commodities to improve their affordability. Our report discusses how in the Arab region the space for more progressive fiscal policy-making has been restricted by loan conditions imposed by international financial institutions, resulting in rising inequality and dissatisfaction with tax systems.

Tax systems can contribute to social justice by:

* Raising revenues for public spending on services, equitable economic development and maintenance of key institutions
* Redistributing wealth – to reduce inequalities between high and low-income groups and between women and men
* Supporting representation and accountable governance by giving taxpayers an opportunity to see and comment on how taxes are spent
* Changing damaging practices of individuals and companies by ‘repricing’ goods (for example, by taxing fossil fuel or alcohol or tobacco consumption)
* Incentivising economic activity in support of national development plans and industrial policies to help create employment and provide goods and services.

Responding to priorities of ANND networks, our report highlights the relationship between tax and gender equality – tax systems tend to reflect unequal gender norms and reinforce gender inequalities. It also considers the links between tax and fiscal policy and employment in Arab contexts – there is increasing informal employment and high levels of migration, and tax and fiscal systems have not adequately supported productive economic development and job creation sufficient to absorb a rapidly growing labour force.

Our report examines the status of tax systems in Egypt, Lebanon, Palestine and Jordan (all countries in which tax revenues are an important source of national income) aimed to answer the following questions:

* What are the most prominent features of the tax systems in these countries? What are the similarities and differences between them?
* To what extent do these systems respond to the requirements of economic and social justice?
* How do these systems overlap with fundamental and common issues such as informal labour and gender?
* What are the most important reforms required on these systems to improve the level of tax justice and economic and social justice?

Analysis from the four focus countries highlight some areas of common concern, including low tax effort (particularly in terms of taxing wealth), illicit financial flows, inappropriate tax incentives, and the prevalence of indirect taxation and other regressive tax policies. Based on this analysis, some possible reforms to tax policies are suggested. These include that:

Tax and fiscal systems should support sustainable and equitable national development.
They should be aligned to national development plans and industrial policies and ensure the efficient use of resources, including, for example, by responding to the different needs of men and women, financing public investments that bring sustainable economic benefits, and supporting for social protection and public services that meet the needs for people living in poverty.

Tax policies should be effective and fair.
The burden of taxation should be distributed equitable and proportional to ability to pay. Tax collection should be efficient to maximise the available resources for sustainable development. Fairness should be strengthened by improving differentiation in tax rates, and redesigning tax incentives (for example, to support productive economic activity and small enterprises) and ensuring 'direct' taxes on goods and services distinguish between luxury and essential goods.

Tax systems should be transparent and accountable.
Governments should respond to the needs of citizens, implement policies that are coherent with sustainable development, combat corruption and tax dodging, and put in place mechanisms to expand community and civil society participation in tax and budget processes at all levels.

Introduction

Tax and Financing for Sustainable Development

In recent years tax and fiscal policies have come to be more widely understood as critical development issues and important instruments for promoting social justice. Civil society organisations have increasingly sought to engage governments on issues of tax and fiscal justice, and have played an important role in promoting policies that are informed by, and better respond to contextual challenges to sustainable and equitable development.

This report considers how tax and fiscal systems in the Arab region can better support social justice and deliver sustainable development. It accompanies a tax justice toolkit and the report *Tax and Gender Justice in the Arab Region,* also published by the Arab Network for NGO Development (ANND) as part of the tax justice project supported by Christian Aid and the Ford Foundation. This report aims to support Arab civil society efforts to assess tax systems and promote tax and fiscal justice. Published as we approach the end of the first four-year cycle of Agenda 2030 for the Sustainable Development Goals (SDGs), these reports aim to highlight the importance of tax policy as a source of social justice and financing for development.

The Sustainable Development Goals (SDGs) focus on addressing inequality, prioritising the needs of the most vulnerable, and realising human rights. To attain these goals needs financing as much as political will, and the funding gap for achieving the SDGs has been estimated at $2.5 trillion.[1]

In 2015, the UN's Third International Conference on Financing for Development (FfD) in Addis Ababa highlighted the role of domestic tax revenues in funding the SDGs.[2]

Domestic public resources, particularly tax revenues, are the most flexible and sustainable source of financing available to governments for national development and, if well governed, can be the most accountable to citizens. Other sources of financing include domestic and international private business, international development cooperation and loans. However, these are not necessarily open to public scrutiny or democratic control, nor are they as predictable or aligned to human rights and development priorities.

The Addis Ababa Action Agenda agreed in 2015 sets out a global framework for action on financing, debt sustainability and international trade. Civil society groups have been concerned that the FfD process has been dominated by international financial institutions and OECD countries, limiting the influence of less wealthy countries, and that the role of the UN in settling issues such as debt sustainability and accountability of private financing is marginalised. They have also been highlighting the responsibility of wealthier countries for helping to plug financing gaps so that all countries contribute to the achievement of the SDGs.

Two major shifts in the FfD process happened in Addis Ababa. An annual review mechanism was established to monitor and follow up on the action agenda, using an inter-agency task force, with more than 40 agencies reporting to the UN Department of Economic and Social Affairs. An annual FfD forum was established to negotiate agreed outcomes for ensuring that adequate financing is available for developing countries.

In Europe, a civil society organisation (CSO), Citizens for Financial Justice (funded by the EU) is enabling European CSOs and their partners in developing countries to better engage in the FfD process and raise citizens' awareness about the need for just, equitable, and sustainable financing for development. The project is expected to create regional steering committees beyond Europe, to start mobilising citizens to address finance as a social justice issue in other regions, with an explicit focus on the FfD process. Globally, the Civil Society for FfD group is one of the recognised CSO mechanisms in the FfD process and is engaging and responding to the FfD process at every stage.3

Tax justice, poverty and inequality in the Arab region

Campaigns for tax justice have emerged from struggles against colonial rule in India and Kenya, and protests against unjust taxes that resulted from structural adjustment in countries such as the Philippines and Ghana. Tax justice movements in Europe and the US have focused on financial secrecy and tax abuse as key problems that deprive developing countries of the revenues to which they are entitled. While these issues remain important everywhere, the Arab region, along with other developing regions, has additional needs, including improved fiscal spending for essential public services and achieving social and economic rights; a more equitable distribution of tax burdens; and greater accountability in tax and fiscal systems through transparency and public oversight of tax and fiscal policy making.[4]

These remain considerable challenges, particularly where representative democracy and participatory styles of governance are not in place, and where there has been a high level of dependence on oil revenues rather than taxation. While promoting tax justice in the Arab region requires diverse approaches depending on very different national contexts, this report identifies some common issues for the Arab region. Based on new research into tax systems in Egypt, Lebanon, Jordan and Palestine, it builds on earlier studies summarised in the comparative study *Tax Systems in Six Arab Countries*, published by ANND in 2014, to develop the concept of 'tax justice' as it can be applied in the Arab region.[5]

Tax systems tend to be the product of prevailing socio-economic models and often reflect the balance of powers in society, but they are pivotal in achieving both economic and social justice, so must be evaluated on the basis of both. This report discusses how tax systems in the region could be developed to support economic and social justice outcomes as appropriate in national contexts. The need to change unjust taxation systems while also raising sufficient tax revenues for achievement of rights and SDGs was highlighted by Arab region civil society organisations during the Arab Forum on Sustainable Development and the UN High Level Political Forum in 2018.[6]

The role of economic policy in addressing inequality is at the forefront on current policy debates.[7] It has been argued that inequality can impede the pace and quality of growth and, certainly, it undermines good governance by enabling political capture by elites and entrenching their interests above those of the wider population.[8] Inequality also makes it harder to fund universal public services, and there is evidence that it harms health and educational outcomes. Inequality is therefore a barrier to social justice, and tax and fiscal policies are critical in addressing it.

'Life, freedom, social justice' was the slogan uttered during the popular protests that began in Tunisia in December 2010 and spread to many parts of the Arab region. The slogan related closely to those that led to the independence of the Arab region from colonial rule in the 1960s, and is still reflected in the failure of post-colonial governments to achieve any meaningful social and economic progress for the vast majority of people, apart from benign policies in Tunisia (to some extent), or the democratic system of governance that makes Lebanon an exception in the region, however imperfect. It reflected the aspirations of Arab people, which were not limited to political and cultural freedoms and improved living conditions, but included a desire for guarantees of social and economic rights, including decent work, social protection and public services.

The concept of tax justice is particularly relevant to a region where many people have long felt deprived of economic opportunity and excluded from the benefits of the high growth achieved in the early years of the third millennium. The spontaneous protests that erupted in Jordan during May and June 2018 in response to proposed tax reforms illustrates the strength of feeling about tax systems, which are widely felt to place a disproportionate burden on the poor without delivering on social and economic rights. That the reforms were part of an austerity plan imposed by the International Monetary Fund (IMF) to reduce the country's financial deficit, which is linked to high burden of national debt repayments, highlights the importance of policy space for countries to reform tax systems in a way that responds to the needs and concerns of citizens and national contexts.

The Arab region is diverse, and characterised by extremes of wealth inequality, both within and among countries. Poverty is extremely high in countries such as Yemen, Mauritania and Sudan, and in rural and urban poor areas of countries such as Morocco, Egypt, Syria, Jordan, Palestine and Lebanon. While the Gulf Cooperation Council countries, as well as Iraq and Libya, derive a significant share of national income from oil exports, non-oil exporters (such as Lebanon, Palestine, Egypt and Jordan) depend heavily on tax revenues which account for a much larger share of national income.

Poverty is associated with social instability and marginalisation, and a lack of basic rights. The informal economy absorbs a very significant proportion of workers in most – if not all – Arab countries and the region experiences high unemployment, especially among youth and women and increasingly among higher education graduates, a trend that accelerated in the late 1980s when capital markets were increasingly opened to poorly regulated international trade and investment flows.[9] This has led to a sharp sense of injustice, not only among the poorest but also among the middle classes, with many people struggling to cope with continuous price rises. At the same time, wealthy elites are seen to spend extravagantly. It has been argued that high inequality explains the frustration that led to revolutions in the Arab region.[10]

Some commentators have estimated the Middle East region to be one of the most unequal in the world.[11] Inequality can be measured in different ways, but data often fails to adequately capture the multidimensional nature of poverty and marginalisation, or the geographic or gender disparities that persist in the region. The commonly used Gini coefficient is relatively high in Arab countries, particularly Qatar, Tunisia and Morocco (41%), Jordan (35%) and Palestine (36%).[12,13] The Gini coefficient does not, however, measure inequality well in contexts where there are extremes of inequality.

Extremes of inequality are more visible when one looks at the share of national income enjoyed by people in the top earning categories compared with the poorer groups (Table 1).[14] 'National income' is the total amount of income accruing to a country from economic activities in any given year. It includes wages, interest, rent and profits. In the Arab region, data on the top 1% is scarce, but data is available for the top 10% (see Table 1). Many more developed countries experience similarly high rates of inequality, but most have more progressive tax and fiscal policies than those found in the Arab region. This is important, as this report will later highlight, since these help fund universal public services that are free at the point of use and other measures that substantially reduce the impacts of income inequality.

Table 1: Share of national income

	Pre-tax income share of top 10% in 2016	Pre-tax income share of bottom 50% in 2016
Egypt	49%	18%
Jordan	48%	17%
Lebanon	57%	11%
Palestine	51%	14%

Sources: World Inequality Database[15]

In the Arab region, trends towards rising inequality have had a strong gender dimension, resulting from cuts to public services, such as health and education. These impact disproportionately on women, who are also severely disadvantaged in terms of access to employment. The Gender Inequality Index, which provides an indicator of gender inequality based on factors including women's access to health and education and their labour force participation, highlights how gender inequality is very significant and often inconsistent with overall levels of development in most of the Arab region. For example, Jordan (with a high human development index) ranks 111 out of 159 countries for gender inequality while Egypt (with a medium human development index) ranks 135.[16]

In the decolonisation and national liberation period, governments in the region aimed for a 'developmental state' model, implementing a range of social policies and services, including public employment and social protection, to improve living conditions. However, these approaches were eroded as a result of economic crises and the increased dominance of neoliberal approaches in economic policy making. The latter aimed to change the role of the state in economic development from one of active intervention to a facilitator of market-based economic systems. There was widespread privatisation of social insurance and basic services, based on the belief that the private sector should be the engine of economic growth and provide for the needs of all citizens.

Economic liberalisation doctrine overlooked the fact that in Arab countries the private sector operates, to a large extent, in the absence of stability, rule of law and an integrated legislative and institutional system. The restructuring of Arab economies towards a greater prevalence of fast-paced, low-risk, and revenue-based service and commercial sectors at the expense of productive sectors of real and sustainable added value resulted in economic growth that has not benefited the majority of citizens, who instead have experienced reduced access to health and education, high unemployment and a lack of social protection. Increased disparities in income and wealth have translated into 'political capture' – an imbalanced legal environment favouring powerful business elites and connected private sector, who have increased power to influence policy for their own benefit at the expense of a coherent industrial policy.

Clearly, radically different economic and social policies are needed, with social justice at the forefront, and based on equitable and progressive policies to raise sufficient revenues for public expenditures prioritising marginalised groups and regions, alongside investment and incentives to create decent work opportunities and more productive economies.

Trust in tax and fiscal policies must also be built. As the recent demonstrations in Jordan have highlighted, *fair* taxation is at the heart of social justice in the Arab region**.** Tax systems need to be progressive and differential in their application, so that individuals and companies are happy to contribute to financing the development of the country according to their means and capacity.

Methodology

This report is a reflection and a summary of work carried out by the ANND network during the lifetime of a project supported by the Ford Foundation and Christian Aid between 2016 and 2018.

Our review of the tax systems in Egypt, Lebanon, Jordan and Palestine aimed to answer these questions:

- What are the most prominent features of the tax systems in these countries? What are the similarities and differences between them?
- To what extent do these systems respond to the requirements of economic and social justice?
- How do these systems overlap with fundamental and common issues such as informal labour and gender?
- What are the most important reforms required on these systems to improve the level of tax justice and economic and social justice?

The method drew on the past work of ANND, including a 2014 comparative study of Egypt, Jordan, Palestine, Lebanon, Tunisia and Morocco, a review of recent literature and national reports of the four countries which are our renewed focus, and discussions in regional and national workshops that brought together NGO members of ANND and contributed to a deeper understanding of the issues relating to tax justice in the region, helping to focus some of these as the main activists on the issue in the region.

Although a common conceptual framework for the country-level studies was developed, there was not a consistent methodology across the four countries and a lack of comparable data in relation to some issues. Nevertheless the four countries reviewed do offer some common issues and lessons this can inform our understanding of tax justice.

The four selected countries exhibit similarities in their scarcity of natural resources, abundance of human resources, economic and social structures, economic status and in the management of the state through macroeconomic policies derived from the free market economy model, primarily the tax policy. They all receive significant external support to meet various commitments and support budgets. All have high levels of debt which carry heavy costs, not only financial, but also because loans and debts impose conditions, notably significant reductions in social spending and subsidies, and an increased tax burden on the poor as a result indirect taxation. Other tax justice-related topics incorporated in this report have been based on available national data and other sources.

Important concepts and issues

Balancing tax effort, tax potential and the tax burden

Tax systems need to deliver sufficient quality public services and meet other public expenditures. In doing this, the tax burden imposed on taxpayers (individuals, companies or institutions required to pay tax by law) needs to be within reasonable limits commensurate with the size and structure of the economy, public expenditures needed, the economic and social conditions of taxpayers, and the government's ability to collect taxes efficiently from various sources.

The 'tax burden' or 'tax effort' is the total tax paid by society, as a proportion of society's income (usually measured as GDP) and is often expressed as a ratio of tax to GDP. The 'tax potential' of the economy is the term used to define the limit of tax burden or tax effort which, if exceeded, would have negative effects – for example by increasing the tax burden of people living in poverty beyond acceptable limits, or by discouraging domestic or external investments that could bring real economic benefits. It is important that tax systems avoid negative impacts on ordinary citizens as well as to the economy. How costs and benefits are distributed is key to tax justice.

Ensuring appropriate tax incentives

Tax incentives include exemptions, preferential tax rates and deferrals granted to lower the tax liabilities of companies and investors. They are a form of public spending whereby governments forego tax revenues to incentivise investments or specific types of economic activities in a country or region. They may be useful as instruments to promote an industrial policy coherent with development objectives (eg, by stimulating investment in underdeveloped areas or in sustainable technologies or by encouraging good labour practices), but often they are unnecessary or ineffective. This is a problem because tax exemptions reduce the revenues available to governments to spend on public goods and services. Additionally, as they are a form of subsidy to selected companies, they may appear to be unfair to people on low incomes or small companies that enjoy no such privileges.

Tax exemptions should be assessed on the basis of whether they are needed (ie, would the investment happen even without the incentive?), how transparent and accountable they are, and how effective they are in stimulating sustainable and equitable economic development. In the Arab region, there is little transparency around tax incentives and limited effectiveness in their use as instruments of inclusive economic development. Instead, they have been a drain on revenues. The aim of tax incentives, if they are used at all, should be to minimise revenues foregone while maximising benefits for most citizens.

Civil society action on tax incentives/exemptions

Transparency and accountability about tax incentives is often lacking, despite taxpayers' right to know. This increases the risk of corruption and is a barrier to good governance and effectiveness.

Civil society groups in Latin America and Asia have been developing tools to assess tax incentives against a set of criteria for good governance. These include whether the incentives have been publicly justified with clear objectives, as part of a broader economic strategy, and whether they promote a positive impact on broader economic development. Other criteria are that the tax incentives are provided for within tax law and are available to all investors on the same terms (ie, not discretionary); and whether they are fully transparent, simple to administer and implemented in compliance with the law. The relative costs and benefits of tax incentives should be assessed periodically to see whether intended outcomes have been achieved and what development and human rights outcomes they have contributed to.

In Southeast Asia, civil society groups have called for a rationalisation of tax incentives, highlighting how a ‘race to the bottom’ between countries in the region seeking to attract foreign investors has resulted in unnecessary lost revenues. Incentives have not generally been successful in enabling countries with a poor investment climate to attract foreign investment, because many other factors beyond tax influence company investment decisions. The desired effect of increased levels of investment is rarely achieved through tax incentives alone. A coherent industrial policy is needed, in which tax incentives may be a part.

In the Philippines, tax incentives given to extractive industries have been criticised as unnecessary, because investment decisions are primarily based on the availability of natural resources. The resulting costs of tax incentives are very significant compared to available funds for public spending. In 2011, these amounted to 356% of government spending on health and 642% of government investment in housing and community development.

Sources: Action for Economic Reforms and Bantay Kita, and Instituto Centroamericano de Estudios Fiscales[17]

Direct and indirect taxation

Tax revenues come from direct taxes (taxes on incomes, profits and property) and indirect taxes (taxes on consumption and sales, and customs duties). The share of each source in total tax revenues varies from one country to another, depending on the nature of the tax system and the structure of economies. In the Arab region, the proportion of revenues raised through indirect taxes such as purchase tax and value added tax (VAT) is relatively high, while direct taxes are extremely low by international standards.

The effects of this are generally regressive (contributing to inequality), in contrast to more progressive forms of taxation that do more to redistribute wealth and narrow inequality. Indirect taxes, especially VAT, that are imposed on the final consumption of goods and services, are often applied across a wide range of goods and services used by most people, so they fail to differentiate between rich and poor, particularly if the rates applied do not vary between luxury and basic goods. Therefore, indirect taxation generally places a greater tax burden on people living in poverty in relation to their incomes. Indirect taxes often also place a disproportionate burden on women, who generally spend a greater share of their income on essentials such as food.

Indirect taxes are widely used and often justified as a way to distribute the tax burden across a broad tax base and because they are seen as relatively easy to collect. However, to avoid negative impacts they need to be reformed to promote fairness, and the overall proportion of indirect taxes in total revenues should be reduced in favour of more direct taxation of company profits and the incomes of wealthier individuals. Collection of direct taxes needs not necessarily be more difficult, but in the Arab region there are challenges, including high levels of informal employment and the fact that increased direct taxation may be unpopular where wages are low and governments have failed to deliver economic and social rights.

Direct taxes include those levied against wages of individuals (collected at source for most workers) and corporate income tax. In the Arab region, a high prevalence of generous tax exemptions and low tax rates on corporate income mean direct taxation is relatively low, raising further legitimate questions about the fairness of tax systems. The situation is compounded by the fact that wealthy individuals have more opportunities to legitimately avoid or illegally evade personal taxes than do lower paid workers.

Tax and the social contract

By financing quality public services and social protection, taxes can be a vital meeting point between governments and their citizens, enabling people to have a sense of ownership and entitlement in relation to public expenditures and policies that regulate them. For this to happen, tax and fiscal policies need to be transparent and accountable to all groups of citizens, and not influenced to support the interests of elites. They must also enable the progressive realisation of rights for all, and finance public services that meet the needs of both women and men in such a way as to reduce gender and other social inequalities. Trust in tax systems, and public perception that they are fair, in turn, support citizens' compliance with tax regulations.

Equity and progressiveness in taxation

The overall tax effort must be distributed equitably so as not to place a disproportionate burden on people who are vulnerable or living in poverty, aggravating and perpetuating social gaps and increasing the concentration of wealth in the hands of a minority. When tax systems are effective in doing this, for example by imposing higher tax rates on people with large incomes, they are considered to be progressive, and they are more likely to contribute to stability and to inclusive economic development. However, neoliberal economic doctrine has supported more 'flat' taxation, including of income.

Systems of progressive taxation became the norm in many developed countries after the Second World War, when revenue was needed to rebuild and finance the welfare state. It was generally advocated for by trade unions and implemented by social democratic and liberal political parties, who sought to create an inclusive society. The increasing restrictions on freedom of association in several countries in the region, as well as the shrinking civic space for civil society, means that there has been little pressure to create progressive tax systems.

This principle guides tax systems in many parts of the world, but is often undermined where policies enable tax avoidance (eg, by granting unnecessary tax exemptions to companies) or enabling wealthy individuals to avoid paying taxes by sheltering wealth in tax havens. In this respect, tax policies often reflect the interests of more powerful sections of society. Equity in tax systems cannot be achieved if rules are influenced by the interests of a wealthy minority, rather than shaped by the need to bring benefits to all.

Tax and gender equality

The Convention on the Elimination of All Forms of Discrimination against Women (CEDAW) prohibits any gender discrimination in tax systems. The manner in which tax and fiscal policies reinforce or help to alleviate gender inequality has been a matter of concern in both developed and developing countries in recent years, relating to development financing, as well as in the debate on government responsibility towards its citizens. ANND research into the tax systems in Lebanon, Egypt and Tunisia concluded that tax laws and policies reflect unequal gender norms and practices and often aggravate them, but that they can also be changed to mitigate gender inequality.[18] For example, where VAT is regressive, the impact on women is generally greater than on men, not only because women are generally less wealthy, but also because in the Arab region women generally take care of a larger proportion of household expenditure so that increases in VAT impact on women disproportionately.

Actions needed towards gender equality are clearly set out in the CEDAW and SDGs. Tax and fiscal policies must contribute more to financing the progressive realisation of women's rights and the achievement of SDGs, ensuring public spending meets the needs of women living in poverty and other marginalised groups as a priority, and that tax policies raise revenues in a way that is progressive in relation to gender and other inequalities.

Effective tax and fiscal measures for addressing gender inequality in the Arab region

Tax and fiscal policies discriminate against women in two main ways, firstly by failing to address the ways in which women are disadvantaged by the systems themselves, for example by systems where tax liability is assessed at household level failing to support women's autonomy or employment; and secondly by failing to finance public services and infrastructure to meet the different needs of women and men.

Funding for social protection policies is an important area. Women are more likely than men to be employed informally and be directly dependent on social protection and health services at some point in their lives because of their reproductive roles and their disproportionate burden of unpaid domestic and care work. This is recognised in SDG target 5.4 'to recognise and value the unpaid care and domestic work through the provision of public services, infrastructure and social protection policies'. SDG 1.3 on provision of social protection systems and measure for all, and SDG 10.4 on adopting policies, including fiscal, wage and social protection policies, to progressively achieve greater equality, are also relevant.

The UN Economic and Social Council for Western Asia has recognised that the unfair social organisation of care (maintaining it as the domain of households and women) is a foundation for persistent gender inequalities in the Arab region, and points to the role of tax and fiscal policies in addressing this. It has proposed that states assess the impact of existing and proposed fiscal policies on different groups, including how these reinforce the 'male breadwinner' family model and unequal distribution of unpaid care, and how these can affect women's employment and human rights.

Important approaches towards more gender sensitive tax and fiscal policies include gender analysis of taxation that recognises that different approaches to taxing women and men may be needed to achieve substantive equality (ie, beyond 'gender-neutral' approaches); the adoption of principles of gender responsive-budgeting to ensure the different needs of women and men are addressed across all areas of public spending, including to address intersecting inequalities such as the specific needs of women with disabilities; and investment in essential services and in the care economy to reduce the care burden carried by women (which can also help to create jobs for women). It is also important to tax wealth to raise sufficient revenues for public services and infrastructures that respond to the needs of women and reduce the burden of unpaid care (eg, the provision of preschool childcare facilities, accessible health services and social protection to meet sexual and reproductive health and maternity-related needs).

Sources: Christian Aid and UN ESCWA[19]

Fair differentiation of taxes

Tax rates can be differentiated in various ways. When it comes to direct taxation of incomes, most countries set a range of tax brackets with different marginal tax rates so that those on higher incomes pay a higher rate than low earners. More progressive systems are those where there is sufficient differentiation, so that tax systems are more effective in narrowing inequality and revenues from people on higher incomes yields significant additional revenues that can provide fiscal space to reduce tax rates for those on lower incomes and small and medium-sized businesses.

In addition to distinguishing between the different circumstances of individual taxpayers in terms of their incomes, tax rates can be differentiated between different types of economic activity and the contribution these make to a sustainable economy, providing another tool policy makers can use to ensure tax policies help to promote more equitable economic development. For example, high value-added agricultural activities of family farms can be supported with a lower rate of tax than activities such as land transactions and speculation in financial markets, which bring fewer public benefits. Differentiation can also be applied to indirect taxes of goods traded or consumed depending on their importance, so that essential commodities consumed by all people are taxed less than luxury products that are consumed relatively more by the rich.

Tax evasion and avoidance

Tax evasion is non-payment of tax in contravention of the law. A variety of tax avoidance measures (such as transfer of wealth to tax havens) and questionable practices ('tax dodging') are also taken by individuals and institutions to reduce their tax liability. Tax avoidance is not illegal, but it does deprive governments of revenues and, as it is pursued most aggressively by larger companies and wealthy individuals who have greater capacity to find ways to avoid paying tax, it is also inequitable, as these pay a lower proportion of their income/profits as tax compared with low-income individuals and smaller businesses

Financial transparency is key to reducing tax evasion. Governments also need to be held accountable for tax policies, to ensure that these do not facilitate inequitable tax avoidance, thus depriving citizens of revenues for social justice and sustainable development.

Compliance with the tax system can also be encouraged if citizens see that tax revenue is used to provide essential public services that benefit most people, rather than used for purposes that bring few benefits to ordinary people.

Perceptions of the fairness and necessity of tax and fiscal systems for the provision of public goods, as well as the efficiency and effectiveness of their governance, are factors that also influence business tax compliance. However, businesses and investors may also be influenced by other factors such as the degree of transparency in the financial system and the actions of shareholders.

Assessing tax systems for effectiveness

The effectiveness of tax and fiscal policies should be measured not only in terms of the revenue generated, but also by the extent to which this revenue is being used to support coherent and effective plans for achieving development goals and economic and social benefits. Tax systems therefore need to be assessed in conjunction with fiscal policy and particularly public spending on key areas such as social protection, health and education. As the Arab region is characterised by high levels of gender inequality, it is important to ensure tax and fiscal policies positively support the achievement of women's rights and economic empowerment. It is also critical in the Arab regional context to ensure that tax systems support sustainable and equitable economic development, including the creation of sufficient decent work to employ a growing labour market.

Summary

Tax and fiscal systems are important policy instruments because they can:

- Raise revenues – for public spending to meet needs for healthcare, shelter, education and other public services, to stimulate sustainable and equitable economic development, maintain institutions and reduce inequality.
- Redistribute wealth – to reduce inequalities between high- and low-income groups and between women and men.
- Support representation and accountable governance – taxpayers contribute to national revenues and are entitled to a say in how these are raised and spent.
- Change damaging practices of individuals and companies by 'repricing' goods. For example, taxes can reduce consumption of alcohol and tobacco by making them more expensive, and fiscal policy can subsidise and encourage a switch from fossil fuels to renewable energy.
- Regulate the economy – tax systems can incentivise economic activity in support of national plans and industrial policies, to help create employment and penalise non-productive, speculative or unsustainable sectors.

These are all elements of tax justice, discussed in the next section.

Tax justice

Tax justice is a broad concept developed by civil society to enable stakeholders to articulate what they think is acceptable in a tax system in any given context. The Tax Justice Network Africa's report on Kenya's tax system, for example, suggests that important elements include putting tax in a human rights and social welfare context, making tax a part of a rights-based approach to governance and ensuring that the voices of less powerful people are heard alongside the voices of powerful special interests.[20] Some commentators have suggested that tax justice can have two aspects:

- Horizontal justice – realised when taxpayers who face equal conditions, for example in terms of income or family size, pay the same amount of tax.
- Vertical justice – realised when people who are facing different economic conditions are treated differently in the sense that their tax responsibilities are differentiated, ensuring those who are in a better economic situation pay proportionately more.

Tax justice contributes to social justice in two ways: by financing public expenditures that play a role in reducing inequality, meeting needs and realising rights; and by ensuring that taxes are raised in a way that distributes the tax burden equitably, and helps to redistribute income and wealth.

Tax justice in the Arab regional context

Equity in tax systems is a very significant issue for tax justice in the Arab region, as illustrated by the protests in Jordan in 2018. Many citizens feel they carry an unfair tax burden, particularly resulting from the imposition of direct taxes instead of measures to more effectively tax wealth, while at the same time, they are affected by a lack of adequate public services and infrastructure, and of investment to create much-needed jobs. Tax systems therefore need to more effective and progressive in taxing wealth and differentiating levels of taxation based on the personal and financial status of taxpayers. There is a need for effective and comprehensive reform. Also important is the application of the principle of equality before the law, without discrimination to individual citizens or taxpaying institutions, so that taxes are imposed on all incomes and wealth in any society with no exemptions *unless there is a legal justification*. Greater efforts are therefore needed to address tax evasion and other corrupt practices.

As we suggest in the box, other important pillars of tax justice for the Arab region include policy space, to allow governments to respond to needs and concerns of citizens in relation to tax and fiscal policy and be more accountable to citizens' rights. Without this, there is a risk that the social contract between citizens and the state, and trust in tax and fiscal systems, is undermined. Policy space in many countries in the Arab region has been restricted by loan conditionalities and more needs to be done to ensure tax systems respond to the needs and concerns of citizens in terms of equitable treatment, burden-sharing, and economic opportunity, alongside any reform of public spending or fiscal policy which is also important. A broad vision of the role of public financing (including both income and expenditure) is needed, in line with the economic and social context and the macroeconomic conditions of individual countries.

Loan conditionality and policy space in the Arab region

In developing Arab countries in the post-colonial period, many governments made significant social outlays that resulted in remarkable improvements in social and economic indicators, but from the mid-1980s economic slowdown saw many countries in the region turning to the IMF and World Bank for support. As a result, most became subject to loan conditionalities – rules and conditions that restrict economic policy making by governments, with the aim of reducing fiscal deficits by increasing tax revenues and reducing public expenditures. The priority, at least until relatively recently, was to ensure macroeconomic stability to finance debt repayments.

In many cases, the results were economic reforms that failed to promote inclusive economic development and reduce inequalities. For example, reforms often included removal of state subsidies on important commodities including fuel, bread and medicines, which were provided in many Arab countries as a way to offer relief from high prices in the absence of universal social protection. 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. The decline in government subsidies for basic commodities was greater in Egypt and Jordan than in Lebanon and Palestine.

Removal of subsidies has been widely seen as unjust because it reduces the purchasing power of people living in poverty. A similar effect has resulted from the imposition of increased levels of indirect taxes including VAT, which aimed to increase revenues and broaden the tax base, but which has also reduced purchasing power and impacted vulnerable groups and women disproportionately. In the absence of universal social protection funded by progressive taxation (much needed in the Arab region) targeted social safety nets have also been promoted (often because they are regarded as more cost-effective) but the considerable challenges in the administration of such schemes has meant that they have not been very successful in reaching people most in need of support.

Civil society networks working for tax justice have been critical of loan conditionalities. Recently, the Africa Tax Justice called on the IMF to use a 2018 conditionality review to investigate the impacts of IMF policy lending practice on human rights and inequality in the past two decades, and for measures to fight inequality and achieve the SDGs to be integrated into loan programmes and conditions.[21]

Sources: ANND and IMF[22]

Tax and employment justice

Lack of decent employment has been an important source of poverty and unrest across the Arab region. The problem contributes to mistrust of tax and other economic policies and is a barrier to progressive revenue raising. This section focuses on some of the important relationships between tax systems, employment and social justice in the Arab region, and is based on the past work of ANND on economic and social rights, social protection and informal employment.[23]

There has been a decline in productive sectors such as agriculture and manufacturing in Arab countries, and an increase in low-value added and non-productive sectors such as financial speculation, which create few jobs. For instance, the manufacturing sector's contribution to GDP has been decreasing in Lebanon, from 12.5% in 1997 to 8.9% in 2010. Overall, the growth rate of the manufacturing sector between 1997 and 2010 has been 1.5%, whereas average GDP growth was 4%. Moreover, between 2004 and 2009, industry was responsible for the loss of 12,664 jobs, and its share of job creation was negative (-8%).[24]

Commentators have observed that resolving the employment challenge in the region necessitates a structural transformation through deliberate policies to reverse this trend, supported by appropriate trade, finance and investment. A key question is whether tax and fiscal policies have a role to play in stimulating more investment in sectors that generate employment, particularly in economically marginalised areas. As we have seen, tax incentives and low corporate tax rates have generally succeeded in doing this by themselves. Governments also need to have clear industrial strategies for increasing productivity and jobs, and policy space to able to make necessary reforms.

A second problem is the rise in informal employment. Across the Arab region, non-agricultural informal employment has been rising sharply, the result of demographic changes leading to large numbers of young people entering labour markets, urbanisation and the commercialisation of agriculture, as well as migration and refugee movements. The proportion of informal workers in the total labour force is approximately 50% in Jordan, 73% in Lebanon (90% for immigrants and 59% for Lebanese), 59% in Egypt and 50% in Palestine.[25] In general, women are over-represented in informal employment, but Lebanon is an exception – the percentage of women in informal labour is lower than men (44% versus 63%) because of a concentration of women in the formal government sector, illustrating how expenditure and investment in public institutions and services can support jobs for women.

The Arab region reflects the worldwide trend towards the increasing importance of the informal economy and a more complex relationship between the formal and informal sectors, with the wider use of practices such as outsourcing and informal employment by formal sector companies. However, the contrasts between formal and informal jobs are often stark for workers. The average wage in the informal labour market is much lower than in formal jobs, often less than the minimum wage. Perhaps the most important distinction is that informal employment does not offer entitlements to social security schemes, which in much of the Arab region are formal, employment based and contributory. In this context women are disadvantaged, because they generally earn less than men, are mostly concentrated in informal employment or are unemployed, and are more likely to need social protection, eg, during pregnancy and maternity. Women are also highly represented in sectors that tend to be poorly protected by labour and social security legislation, such as agriculture.[26] This underlines the importance of progressive tax policies that support a strong but fair tax effort, and for revenues to be allocated to universal or needs-based social protection schemes to protect and improve the working conditions and security of informal workers.

Informal workers generally do not pay tax directly because their wages are often lower than the minimum taxable income or because they are not registered in formal systems, but they often carry a disproportionate tax burden as a result of indirect taxation, and may also be required to pay fees and rents to be allowed to operate. Nevertheless, a high proportion of informal labour does limit the revenue that can be collected from direct taxation. Where significant numbers of people earn enough informally to put them above income tax thresholds, this can also mean that informal workers are not taxed when they should be, and thus they will contribute less tax than low-waged workers in the formal economy whose wages are taxed at source. Increasing the proportion of quality jobs in the formal sector remains a challenge for most governments, both in the Arab region and around the world, but would help to reduce dependence on indirect taxation, alongside more effective taxing of wealth and corporate profits.

Self-employment in small or medium enterprises is increasingly important. In our four focus countries, small and medium enterprises account for more than 95% of businesses, contributing significantly to GDP and jobs. Small and medium enterprises also play a very important role in redistributing income and wealth and reducing disparities between regions in the same country. Reform of tax policies to incentivise and support them, in the place of unnecessary exemptions offered to large companies, could go a long way to addressing unemployment and underemployment.

Women's participation in labour markets in the Arab region remains the lowest in the world, with women holding less than 20% of paid jobs outside of agriculture and very few in the private sector. Women who do find paid employment are, on average, paid less than men for the same work. In Egypt, Jordan and Palestine, women's wages in manufacturing as a share of men's wages are 66%, 68% and 50% respectively.[27]

Clearly, gender inequality needs to be addressed to ensure that women receive equal pay for work of equal value, and to remove barriers, such as access to education and skills training, which may prevent women taking up better paid work. However, tax policies also have a role to play in encouraging women's participation in labour markets, for example, through differential tax rates that ensure women who are on low incomes do not carry too heavy a tax burden. Fiscal policies are also extremely important – public spending on services such as health, education and infrastructure that meets the needs of families and people living in poverty can help to address the disproportionate burden of unpaid care and household tasks which prevents many women taking up paid employment; and can support access to job and economic opportunities (eg, through provision of affordable public transport).

Lessons from Egypt, Lebanon, Palestine and Jordan

The countries reviewed for this report face very different contextual issues. Their economies are affected in different ways by the crises in Iraq and Syria. Palestine is a unique case, with limited independence in terms of tax policy because it relies heavily on Israel to receive the revenues to which it is entitled for its own development. Lebanon is in some respects a tax haven, with economic and banking policy heavily geared towards benefiting investors and the wealthy.[28] Egypt faces significant political and economic challenges, while Jordan remains relatively stable despite closure of its borders with its most important economic partners, Iraq and Syria, and the arrival of large numbers of refugees. This diversity needs to be reflected in any approaches to tax reform in these and other Arab countries. Nevertheless, our review of tax systems found several common issues which have important implications for tax justice and are, to some extent, applicable across the Arab region.

Low tax effort

Tax revenues as a proportion of GDP (tax:GDP ratios) vary substantially across the region, and comparisons are complicated by the fact that different international institutions represent this data in different formats. The World Bank, for instance, does not count compulsory social security contributions as part of its definition of tax per GDP, because in its thinking social security is seen as a voluntary market-based service. This distorts tax per GDP figures, yet many analysts use World Bank data as a reference point. Using a IMF/OECD methodology of calculating a tax per GDP ratio, which includes all compulsory social security payments to governments, we find that in the region Tunisia had the highest tax per GDP ratio with 30.3% of GDP, followed by Morocco (26% of GDP).[29] Data for our selected countries is set out in Table 2.

Table 2: Tax per GDP in its components in selected countries of the Arab region

	Tax:GDP	Total revenue: GDP	Notes
Egypt	13%	24%	IMF World Revenue Database for latest available year (2014), data lacking on social contributions. Total government revenue will include revenue from state-owned enterprises.
Jordan	16.6%	27.8%	IMF World Revenue Database (2014) for tax revenue and social contributions. Total revenue also includes grants, state-owned enterprises and other areas.
Lebanon	14%	21.7%	IMF World Revenue Database (2014) adding up tax revenue and social contributions. Total government revenue per GDP
Palestine	37.3%	25.8%	Data for Palestine is not usually disaggregated from Israel's revenue data.
Average for OECD	34.3%	40.5%	Estimate for 2016 is from OECD statistics, and 2014 from IMF. The variation in tax per GDP between OECD countries is considerable, depending on the extent of the welfare state, structure of pensions and social security systems – from 17.2% for Mexico, 20.2% for Chile, and 26% for the US, to 45.9% for Denmark and 45.3% for France.

Sources: OECD and IMF World Revenue Database (latest available data)[30]

Revenue generation in our focus countries has fluctuated around similar levels since 1990, while there has been a clear upward trend in many other countries, suggesting that our study countries are underperforming in terms of tax effort. There is a need to look more closely at the barriers to increased tax effort, some of which are discussed in the following sections. Contributing factors include a multiplicity of tax exemptions, limited taxes on wealth or property and trade liberalisation and accession to the World Trade Organization, leading to falls in the rate of customs duties and hence in total tax revenues in the past two decades.

More could be done to raise additional revenues in a way that is equitable, through progressive measures such as increasing corporate taxes, which are set comparatively low, addressing tax evasion and avoidance, and rationalising tax exemptions. There may also be steps that can be taken to broaden the tax base. There is evidence that the tax base is still narrower than supposed because of legal gaps in registering taxpayers and inefficiency of tax management systems in our focus countries.

Burden of public debt

Taxes constitute the main revenues of the countries covered by this report; they are more than 70% of total public revenues for Egypt, Jordan and Lebanon, and up to 89% for Palestine.[31] We estimate that across the four countries, tax revenues finance about 70% of public expenditure. Nevertheless, these fall short of covering government expenditure, resulting in a continuous public deficit and deepening public debt (Table 3). This situation is, to a large extent, the result of tax reforms that took place in the late 1980s and early 1990s, when corporate taxes and revenues from trade tariffs were widely reduced, resulting in lost revenues.

Table 3: Public debt

	Public debt as % of GDP	Fiscal deficit as % of GDP (2005-2013)
Egypt	88.95%	5.8%
Jordan	93.39%	5.8%
Lebanon	138.41%	8.9%

Sources: IMF World Revenue Database; UNESCWA[32]

A high volume of public debt is a feature of many Arab countries and carries financial costs as well as restricting policy space.[33] The cost of servicing debts is eating away at public revenues that could be spent on essential services; and economic decision making, particularly in Egypt, is dominated by the need to cover the costs of public debt.[34] Palestine is a more complex case, but Egypt, Jordan and Lebanon and have fallen into the so-called ‘debt trap’ and have yet to find solutions to their worsening public debt and its costs and they have to continue borrowing to finance budget deficits. This situation is largely due to the policies of international financial institutions, and there is a strong case to be made for debt relief. Governments also need to do more to ensure that public money, including from borrowing, is used effectively, in a way that supports sustainable development and projects generating additional revenues.

Prevalence of regressive indirect taxes

Taxes on domestic trade in goods and services, including VAT, excise taxes and purchase taxes, represent the largest sources of tax revenues in our focus countries. VAT has become the largest contributor to revenues and is generally applied at relatively high and uniform rates across a wide range of goods and services, although is not applied to everything. The rates are 10% in Lebanon, 16% in Palestine, 14% in Egypt and a general sales tax of 16% in Jordan.

Egypt is an example of how loan conditionalities have influenced indirect taxation for the worse. Following several years of negotiation between the government and international donor institutions in order to obtain a loan package in 2016, a reform to create a unified VAT rate of 14% was introduced in 2017. Despite several exceptions, the overall effect was to increase taxes on some basic goods and reduce the tax rate on most luxury products. In general, sales taxes and excise taxes are poorly designed, not specifically targeted on goods and services consumed by high-income households. There is a danger that they place an unfair burden on people with low incomes.

Table 4: Direct and indirect taxation as a proportion of GDP

	Proportion of tax revenues from indirect sources (% of GDP)	Indirect tax revenue (% of GDP)	Direct tax revenue and compulsory social contributions, where available (% of GDP)
Palestine	45%	12.2%	9.6 + 5.1%
Jordan	79%	11.6%	3.0%
Lebanon	53%	6.5%	3.7 + 1.7%
Egypt	43%	5.3%	6.1%

Source: IMF World Revenue Database

Poorly differentiated direct taxes

Differentiation refers to the differences in tax rates imposed on different income bands. In our four countries, differentiation is not sufficiently significant or commensurate with disparities in incomes, so high-earning individuals pay less tax than they could afford, while tax has a very significant impact on purchasing power and standard of living for those on low incomes.

The highest personal income tax rate in all four countries is less than the highest rate in emerging market and developing countries (Table 5). The highest income tax rate in Egypt is paid only by those who earn at least 10 times the average per capita income, and Jordan's top bracket accounts of 20% is only applicable to 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.

Table 5. Income tax brackets in selected countries

	Income tax brackets and applicable rates
Palestine	The recent amendment to the income tax law only applies to three tax brackets (5, 10 and 15%).
Jordan	Three narrow tax brackets: 7% for the first JOD10,000 ($14,100), 14% for the next JOD10,000, and 20% thereafter.
Lebanon	Six brackets ranging from 2% to 20%.
Egypt	Four brackets ranging from 10% to 22.5%.

Tunisia	Five brackets ranging from 0 to 35%.
Middle income country comparison – Thailand	The structure was revised in 2016 and has eight brackets. The threshold for tax is set relatively high – the first THB150,000 ($4,550) is exempt from tax. The highest bracket, for earnings over THB5,000,000 ($11,600) is 35%.[35]

The level of the income threshold below which people are not required to pay income tax is another important factor. The lower it is, the wider the tax base, but the greater the burden on people on low incomes. In Lebanon and Egypt particularly, this is problematic, because the threshold is lower than the average wage and the national poverty line, so many people living in poverty are paying tax. In Egypt, the annual threshold is EGP13,500 ($750), less than the minimum wage of EGP14,400 ($800). The threshold is much higher in Jordan – JOD24,000 ($33,850), or three times the minimum wage. In Palestine, where living costs are similar to Jordan, it is ILS36,000 ($9,900), equivalent to about JOD7,000.

Taxing wealth

In the four countries covered by this report, wealth is lightly taxed and even quasi-exempted. In Jordan and Palestine, there is no tax on non-wage income such as capital gains and dividend payments on shares, bank interest and real estate transactions, which benefits the rich disproportionately. In Lebanon, interest rates were exempt from tax before 2004, at a time where interest rates skyrocketed as the government was borrowing heavily – the tax-free interests on government bonds averaged 18% between 1993 and 2002, sometimes rising to 40%. Lebanon does tax income from leased or rented properties, at progressively differentiated rates across five revenue brackets, and bank interest is taxed at 7%, unlike the other three countries. In Egypt and Lebanon, the profits of share trading are taxed at 10%.

Revenues from property taxes exist in all four countries covered by this report, but currently play a minimal role, contributing just 0.2% of GDP in Egypt in 2014 and 0.47% in Jordan in 2012. In Lebanon, the figure for 2014 was higher at 1.65 %.[36] While property taxes are still largely untapped worldwide, they offer considerable scope for increasing revenues, especially in countries where wealth is concentrated in the real estate sector, as in much of 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 level or lack of this type of tax is undoubtedly beneficial to rich people who are often property owners.

Tax evasion and avoidance

All four countries suffer from tax evasion and avoidance. Contributing factors include the absence of clear legal mechanisms or smooth and fair tax systems, poor institutional and supervisory action, and the existence of laws that sometimes facilitate evasion, particularly those related to foreign investment.

Illicit financial flows are defined as any money that is illicit (illegal or harmful) in its origin, transfer or use. Significant losses due to illicit financial flows are likely to take place annually due to the illicit transfer of funds, which has been noted to stem from weak tax administration and trade mispricing (often done to evade taxes) among other causes.[37] The cumulative losses from Egypt in 2001-2010 are estimated to be $28bn from trade mispricing alone.[38]

The Lebanese Transparency Association 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.’[39]

Banking secrecy laws play a key role in facilitating tax evasion practices by enabling the establishment of offshore companies and tax-exempt holding companies. The fact that most citizens do not feel the benefits of public spending (which tends to be focused on government salaries and operational expenses) when tax law is not implemented in a fair way may also contribute to tax evasion and avoidance, although the problem is most prevalent among larger companies and wealthy individuals.

Tax avoidance, in which taxpayers use gaps in the tax legislation to minimise their tax payments, is widely practised and takes many different forms. For example, companies in Lebanon have been known to split their activities among several smaller companies, but with one overall holding company, thereby benefiting from lower tax rates for smaller companies.[40] In Palestine, large companies operating in service sectors register as foreign companies to take advantage of exemptions.

The Tax Justice Network notes: ‘Lebanon combines its secrecy offering with significant tax exemptions for non-residents, 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.’[41]

Low corporate taxation

Over the past two decades, corporate income tax rates have fallen in all four countries, reflecting a global trend designed to increase foreign direct investment.[42] This was reflected in many countries in the Arab region. For example, corporate taxes in Lebanon were ‘reformed’ in 1994 from a progressive and differentiated system with more than 12 brackets and a top marginal rate of 50%, to a flat tax of 10%. The latter was increased to 15% in 1999 and to 17% in 2017. Corporate tax rates are well below the global average in Jordan and Lebanon. There is also a lack of consistency, with different economic sectors taxed differently and benefiting from multiple exemptions which lack a clear rationale (Table 6).

Table 6: Corporate taxation

	Maximum corporate tax rate	**Exceptions and exemptions**
Palestine	15%	Telecommunications companies and banks pay 20%.
Jordan	35%	Companies in the industrial sector pay 14%. Other sectors, including financial and

		mining, pay 24%. Many other activities, such as service industries and self-employed professionals, pay 20%
Lebanon	15%	Flat rate applied to all companies, with the exception of offshore companies and holdings.
Egypt	25%	Egyptian General Petroleum Corporation and its partners pay 40%, but companies in special investment areas pay concessional rates of 10% and those in 'free zones' only have to contribute 1% of profits to the General Investment Authority.
Global average	24%	This has fallen in recent years but was once much higher. In OECD countries, the average was around 35% in the 1990s.

Assessing for tax justice in the target countries

Tax revenues in the countries surveyed are less than their tax potential; they are insufficient to finance public expenditure, exacerbating national debt problems. There are serious equity issues, including income tax rates and brackets that are not sufficiently differentiated, unfair distribution of tax burdens, and indirect taxes (consumption taxes) that comprise a high proportion of revenues compared to direct taxes (income, wealth and capital).

In this section, we suggest some critical questions for civil society to consider in assessing national tax systems.

Is the tax burden equitably distributed?

There is evidence that tax systems in the focus countries are not distributing the tax burden fairly. For example, we have seen that the minimum thresholds for direct taxation, with the exception of Jordan, may be set too low (considering the cost of living) and do not take into consideration family conditions and taxpayers' individual needs, so are not sensitive to equity issues. We have also seen that wealthy individuals and companies tend to benefit from relatively low tax rates and exemptions, as well as opportunities for tax evasion and avoidance and other failures of tax systems .Whether tax systems can be assessed to be fair may depend on local conditions and practices that may change over time, indicating a need for monitoring and periodic reassessment.

The dominance of indirect taxes in the overall revenues of our four countries is also an issue that should be monitored and challenged. It means that the poorest groups, particularly women (who in the Arab region are responsible for the greater part of household expenditure), carry the greatest tax burden as a proportion of their incomes. VAT or sales taxes on consumption are not generally designed to take account of the differences between citizens on the basis of their consumer behaviour and financial capacities. Everyone pays the same amount of tax regardless of their level of income, especially where rates do not distinguish between basic and luxury goods, as is the case in most of these countries.

When it comes to direct taxation, a very high percentage of total revenues of our focus countries comes from deductions on wages rather than on income from wealth, such as returns on savings and investments for both individuals and companies, and property and capital gains taxes. Civil society groups in the Arab region may wish to consider the reasons for this and the appropriateness of incentives offered to large companies. Tax policies tend to be influenced by powerful lobbies, including elite groups or trade blocks, so it is only right that citizens concerned about social justice should question their fairness and relevance to the national context.

Can tax and fiscal systems address inequality and finance sustainable development?

The previous sections demonstrate that in almost all respects the way tax revenues are raised in our focus countries is regressive, contributing to inequalities rather than reducing them. Spreading the tax burden fairly across society is part of the solution, but it is not enough. As has been noted, tax systems need to be understood within the wider context of fiscal policy and the effective management of public funds for the benefit of the majority. A close examination of the availability and use of tax revenues for public spending (such as social protection, healthcare and education) is needed to assess whether public spending is sufficient and effective in promoting sustainable and equitable development.

Public spending in our focus countries has been declining steadily since the 2008 global financial crisis, contributing to deteriorating public services and declining public investment in key areas for employment, such as agriculture and infrastructure. This has also had a negative impact on jobs and economic growth, especially in the marginalised areas, as well as on public services. In Lebanon, expenditure on public education declined from 2.6% of GDP in 2005 to 1.6% in 2012, placing a heavy burden on families who are now spending more on private education.[43] A similar trend has occurred in health services. Overall, these trends are contributing to declining human development and a poorer quality of public services.

Can the relatively low levels of tax effort in the focus countries be addressed in a way that is equitable in order to secure more revenues for public spending? Increased tax revenues are needed to meet the needs of growing populations, advance human rights and implement the SDGs, including narrowing inequality and prioritising the needs of the most vulnerable. In the Arab region, there is also an urgent need to stimulate productive economic development and create employment in the wake of the financial crisis and political transformations. Tax systems need to be interrogated to see how well they are contributing to these agendas. A key question is whether the structure of public expenditure is consistent with development needs, including the redistribution of wealth and national commitments in areas crucial to addressing inequality, such as education, health and social protection.

Transparency is important in this regard. Allowing public scrutiny of fiscal policies and budgets can help to ensure that revenues are spent well. Where measures for public scrutiny and accountability are lacking, civil society organisations may wish to consider what role they can play in changing this.

Is the application of tax systems fair?

Even well-designed tax and fiscal systems can be poorly or unfairly implemented. Challenges to implementation include corruption in revenue collection and management. Again, transparency can help – citizens' groups can help to monitor and expose wasteful or corrupt practices.

Whether companies and individuals comply with tax rules relates in part to their perceptions about the extent of corruption and whether in the face of corruption, tax rules are fair – taxpayers are more likely to avoid or evade taxes if they perceive the system is unfair. Challenging corrupt practices therefore helps to improve the effectiveness of tax systems in raising revenues.

Corrupt practices, such as collusion between taxpayers and tax officials, the payment of bribes to avoid taxes, or systems that allow discretionary and arbitrary (and therefore uneven) application of tax rules can be considered as issues for social justice, because those with most power and money are most likely to benefit. Regardless of the form or extent of corruption, it undermines respect for the tax system and thus weakens compliance and reduces collection.

In recent years, our focus countries have been regarded as among the most corrupt, according to Transparency International's Corruption Perceptions Index. Our country-level reports suggest that greater transparency and the simplification of procedures may go a long way in tackling this, ultimately contributing to a fairer tax system, increasing revenue collection and strengthening compliance.

In Lebanon, it has been argued that tax reforms will fail to yield results without better supervision and adherence to rule of law.[44]

Finally, levels of banking secrecy should be a concern for civil society groups working for tax justice. Banking secrecy facilitates tax evasion by enabling wealth to be hidden in tax havens. Lebanon in particular has been described as a ‘first class’ tax haven, because it offers bank secrecy as well as a wide variety of tax exemptions for non-residents.[45]

Towards tax justice

This study has found that tax and fiscal systems in Egypt, Lebanon, Jordan and Palestine are not adequate from the perspective of social justice and redistribution of incomes and wealth, financing public expenditures and tackling the spread of tax evasion and avoidance. We suggest below some possible policy recommendations that could be applicable to these or similar contexts to address this. More specific recommendations for the focus countries are included in the individual national reports.

Fiscal policies that support sustainable and equitable national development

Budget patterns in the focus countries have been criticised for their 'neutrality' towards social needs and priorities, not being linked to national plans, and not being flexible enough to allow an efficient use of available resources.

Responses that could be appropriate in these contexts include measures to:

- Shift budgeting approaches from a focus on individual expenditure items towards a greater focus on supporting programmes and performance. This shift could start gradually with the budgets of ministries that provide basic social services, such as education, health and employment.
- Adopt gender-responsive budgeting to support economic and social policies that respond to the different and various needs of women and men.
- Restructure government spending by reallocating resources to public investments that bring sustainable economic benefits in the long term.
- Reduce spending on arms and security to create fiscal space for social services and protection, and economic empowerment.
- Increase the financial resources for social protection, services that meet the needs of people living in poverty and women, and initiatives to create and support access to employment for young people.
- Increase the resources allocated to sectors such as agriculture, manufacturing, health and social care, which create jobs and meet local needs.
- Increase support to micro, small and medium enterprises to help create employment.

Tax policies should be effective and fair

Justice considerations should take prominence in tax reform programmes, so that reforms increase the tax burden on wealthier individuals and large companies rather than on lower income individuals.

Possible responses could include:

- Refocusing tax policy and resources on the efficient collection of direct tax revenues (on income and particularly on wealth).
- Eliminating gender bias in tax policies, for example by allowing for separate tax assessment of women and men within a household, and by restructuring tax systems to respond to gender inequalities.

- Improving differentiation of taxes by increasing the number of tax brackets or raising marginal tax rates; and/or reforms to increase the minimum income exempt from taxation, taking into account national poverty line and inflation rates.
- Redesigning tax incentives to support entrepreneurship by young women and men, small and medium enterprises and investment in other sustainable, productive and job-rich economic activity to help address employment deficits and respond to demographic changes.
- Increasing wealth taxes and taxes on non-productive high-profit activities such as real estate transactions and speculation on financial markets.
- Offering tax advantages and exemptions tailored to help address poverty and inequality, for example, by responding to levels of dependency or health status, or by exempting agricultural incomes to help redistribute wealth to rural areas.
- Revising VAT to better distinguish between luxury and essential goods.

Tax systems should be transparent and accountable

Governments have a duty to respond to the needs of their citizens, ensuring that policies are coherent with national development commitments and human rights. Citizens and particularly civil society organisations with a focus on social justice have an important role to play in scrutinising governments' performance and the impacts of tax and fiscal policies. To make tax systems more transparent and accountable, possible responses include:

- Measures to combat corruption and tax evasion, such as the enforcement of clear rules for the assessment of taxable income by tax officials, and for reporting on ownership and profits by companies, and transparency in application of these rules; and measures to end banking secrecy.
- Measures to expand community and civil society participation in tax and budget processes at all levels including consultations with social groups affected by planned tax reforms and public disclosure of tax policies and national budgets.
- Measures to promote the role of civil society in policy making, to strengthen social accountability in general and to support a culture of open and accountable governance.

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