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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 countries [92] ; 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 education [93] .

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 inequality [94] , 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:
دراسـة عبدالكريـم (2015)، تقييـم قانـون ضريبـة الدخل الفلسـطيني لعام 2011 وتعديلاته مـن منظور العدالة الاقتصاديـة 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 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 fraud[100]. 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 with [101] . 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 rates [102] . 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 study [103] 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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101 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

102 الشبكة الوطنية لمكافحة الرشوة، القطاع الضريبي اللبناني: الواقع الحالي، إصلاحات وزارة المالية والخطوات الأساسية لتفعيل القطاع

103 قباجة، أحمد (٢٠١٢). الاستدامة المالية للسلطة الوطنية الفلسطينية: التجربة التاريخية والآفاق المستقبلية. معهد ماس، رام الله، فلسطين

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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