Arab Watch Coalition Presents

2023

It's Time to Abolish Tax Privileges

By Amine Bouzaïene

Independent Researcher and Consultant on Fiscal Policies at the Ali Ben Ghedhahem Centre for Tax Justice

TABLE OF CONTENTS

Introduction

Negotiations between Tunisia and the International Monetary Fund (IMF) crystallize all concerns on the budgetary, social and economic. The agreement in principle announced on October 15, 2022[1], was to give rise to the official approval of the program by the IMF Board last December. However, before that could happen, the Tunisian authorities requested the withdrawal of the file from the agenda of the IMF Board. For the first time since the beginning of the negotiations, the President of the Tunisian Republic reacted publicly to the program, declaring that he was "refusing the dictates imposed by the foreign actors... that the human being cannot be reduced to a question of figures, and that it is necessary to safeguard the human dimension and social peace..."[2].

These negotiations are taking place in a context where Tunisian public finances are suffocated by debt. The Tunisian state faces debt repayment deadlines for the year 2023 that amounts to 30% of its total budget. In the same way, the 2023 Finance Law plans to finance the latter through debt up to 34% of total resources, composed of 9.5 billion from domestic borrowing and 14.86 billion from external borrowing. The IMF program is supposed to pave the way for the latter. By resorting to this program, the government works towards a short-term budgetary objective. It fails to plan to build a budgetary space dedicated to the revival of the national economy. The planned government program draws its content from the traditional recipes of the IMF. It is focused, in most of its components, around a paradigm of austerity:

- Privatization of public companies or opening their sectors to the free market
- Austerity measures affecting the civil service wage bill, including a freeze on salaries and recruitment,
- Lifting of price subsidies for hydrocarbons, food products, and public transport.

Faced with the aggressiveness of such a recipe that risks more than ever to undermine social peace, discourse around taxation is an essential lever.

With the structural adjustment plan adopted in 1986 under the impetus of the IMF, the Tunisian state weakened its ability to rely on its own resources. Tunisia embarked on a frantic race for competitiveness and tax competition. The diktat of the international financial institutions of the time was translated into Tunisian public policies: customs duties were dismantled, tax loopholes were multiplied, taxation on companies and high incomes was drastically reduced, and regressive taxation on consumption was accentuated. Tax justice has given way to the imperative of fiscal competitiveness with a policy that inhibits its wealth redistribution levers.

The development model carried by the structural adjustment plan has failed, as evidenced by the Tunisian revolution. The latter "... was provoked by the accumulation of multiple injustices. Among

---

1 IMF, Press Release No. 22/353, October15, 2022 link: https://www.imf.org/fr/News/Articles/2022/10/15/pr22353-tunisia-imf-staff-reaches-staff-level-agreement-on-an-extended-fund-facility-with-tunisia

2 Speech by the President of the Republic, April6, 2023, from 41'10, link: https://www.facebook.com/Presidence.tn/videos/3473630082916782/

which fiscal injustice was probably the most determining in the triggering of the process which put an end to the reign of a ruthless dictatorship".[3] In fact, the social and regional inequalities that triggered the Tunisian revolutionary process are nothing other than the result of an inequitable redistribution of wealth for which taxation is the main lever. Even if the Tunisian revolution is a tax revolt, it is never the tax effort in itself that is questioned. Rather, it is the injustice of a policy that privileges the privileged, and that puts the better part of the tax effort on the working classes.

The long history of Tunisia is rife with such economic revolts such as the Revolt of the Man with the Donkey (Abu Yazid) in the 10th century or the famous tax revolt of Ali Ben Ghedhahim in 1864. "... the doubling of the Mejba (a capitation tax[4]) triggered the popular revolt of Ben Ghedhahem against taxes borne mainly by the peasantry and exempted for the privileged."[5] On the night of August 4, 1789, in France, the abolition of tax privileges was decreed, thus the French Revolution was born.

The latter gave rise to a founding text of tax justice and contemporary democracy. Gradually, almost all the countries in the world consecrated tax justice in the supreme legal norm. Tunisia has been a pioneer in the Arab-Muslim world in the constitutionalization of tax justice since 1857 with the proclamation of the fundamental pact, through the constitutions of 1861, 1959, 2014 until the current constitution of 2022. This reflects a historical awareness that voluntary adherence to the payment of taxes is dependent, above all, on tax justice.

This is not only a historical and universal idea, but also a current one, as Oxfam shows in its recent report. "Polls consistently show that most people support taxing the rich. In the U.S., they show that for the first time in the last decade, a majority of citizens are beginning to agree that the government should redistribute wealth by taxing the rich heavily. 80% of Indians would support raising taxes on the rich, and 85% of Brazilians would support raising taxes on the wealthy to fund essential services. In Africa, 69% of respondents in 34 countries agree that it is fair to tax the wealthy at a higher rate than ordinary citizens to fund government programs for the poor. Even the very wealthy agree with this strategy. In January 2022, more than 100 millionaires signed a letter calling for higher taxes."[6]

With the seriousness of the issues it faces, Tunisia can no longer afford to privilege the privileged. The alternatives proposed below rest on an ideological framework of oriented towards the general interest, and placing tax justice at the heart of the issues of Tunisian public policies, namely by abolishing privileges.

---

3 Néji BACCOUCHE, "Impôt, révolution, et démocratisation du système politique tunisien", Revue Tunisienne de Fiscalité n°18, Centre d'Études Fiscales de la Faculté de Droit de Sfax, 2012, pages 14 and 15.

4 Capitation taxes are taxes levied against fixed amounts per adult, or per household, regardless of actual or presumed income or wealth.

5 Amine BOUZAIENE, "Equité fiscale et système d'imposition en Tunisie," Observatoire Tunisie de l'Économie, November 2017, page 1, link: https://cajf.org/publications/equite-fiscale-et-systeme-dimposition-en-tunisie-amine-bouzaiene/

6 Oxfam, "The Law of the Richest", 2023, page 15, link: https://www.oxfamfrance.org/wp-content/uploads/2023/01/Davos_2023_french_full_report.pdf

Chapter 1: Abolishing Corporate Tax Privileges

Regarding the taxation of corporate profits, Tunisian tax policy emphasizes the need for tax competitiveness by relying on two pillars, a low general corporate tax rate and a very extensive arsenal of tax incentives.

1.1 How are corporate profits taxed in Tunisia?

Subject to tax relief and exemptions, the company's profits are subject to proportional taxation at the following rates.

- General rate of 15%.
- Special rate of 35% applying to certain sectors (notably oil, finance, insurance, telecommunications).

Under the impetus of international financial institutions and private interest groups, the general corporate tax rate has been revised four times. , since the enactment of the personal income tax and corporate tax code, with all revisions leading to decreases in the rate.

- from 44% to 35% with the implementation of the personal income tax and corporate tax code in 1990,
- from 35 to 30% in 2007,
- from 30% to 25% in 2014,
- from 25% to 15% in 2021.

In addition to the low rate, the general effectiveness of the principled rate of corporation tax is challenged by a very large arsenal of tax incentives, taking the form of various mechanisms: tax credits, deductions, tax relief, and exemptions. The tax benefits constitute tax expenditures, in the sense that they cause a loss of revenue compared to the application of the standard principle. According to the tax reform process initiated in 2013, 60% of the corporate tax base is undermined by exemptions.[7]

These measures are so numerous that in the third annual report on the evaluation of, the Ministry of Finance has still not managed to simply account for all tax expenditure measures. The report states that further research is needed, particularly in legal texts outside the tax codes, to establish a more exhaustive inventory of tax benefits.[8] The Ministry of Finance has nevertheless been able to count an extremely large number of 339 tax expenditure measures in the following forms: [9]

---

7 Ministry of Finance, Tax Reform Process, page 2 link: http://dev.finances.gov.tn/old/version2/images/Presentation_louti_.pdf

8 Report on tax expenditures and financial benefits, Ministry of Finance, 2023, page 30, link: http://www.finances.gov.tn/sites/default/files/2023-01/10.pdf

9 Idem, page 36.

- 52 tax credit measures,
- 63 tax relief measures,
- 101 tax deduction measures,
- 123 tax exemption measures.

This huge arsenal is therefore added to the trend of lowering the general rate of corporate tax in an economic logic of tax competitiveness very widely pursued by Tunisia.

2.2 Basis of Tunisian tax policy on corporate profits

The narrative of tax competitiveness justifies tax cuts for businesses on several grounds.
In countries with a large informal economy, such as Tunisia, corporate tax cuts are presented as a lever for reducing the informal sector. According to this narrative, these cuts would broaden the corporate tax base by encouraging economic actors operating in the informal economy to enter the organized economy by offering them a lower tax rate.

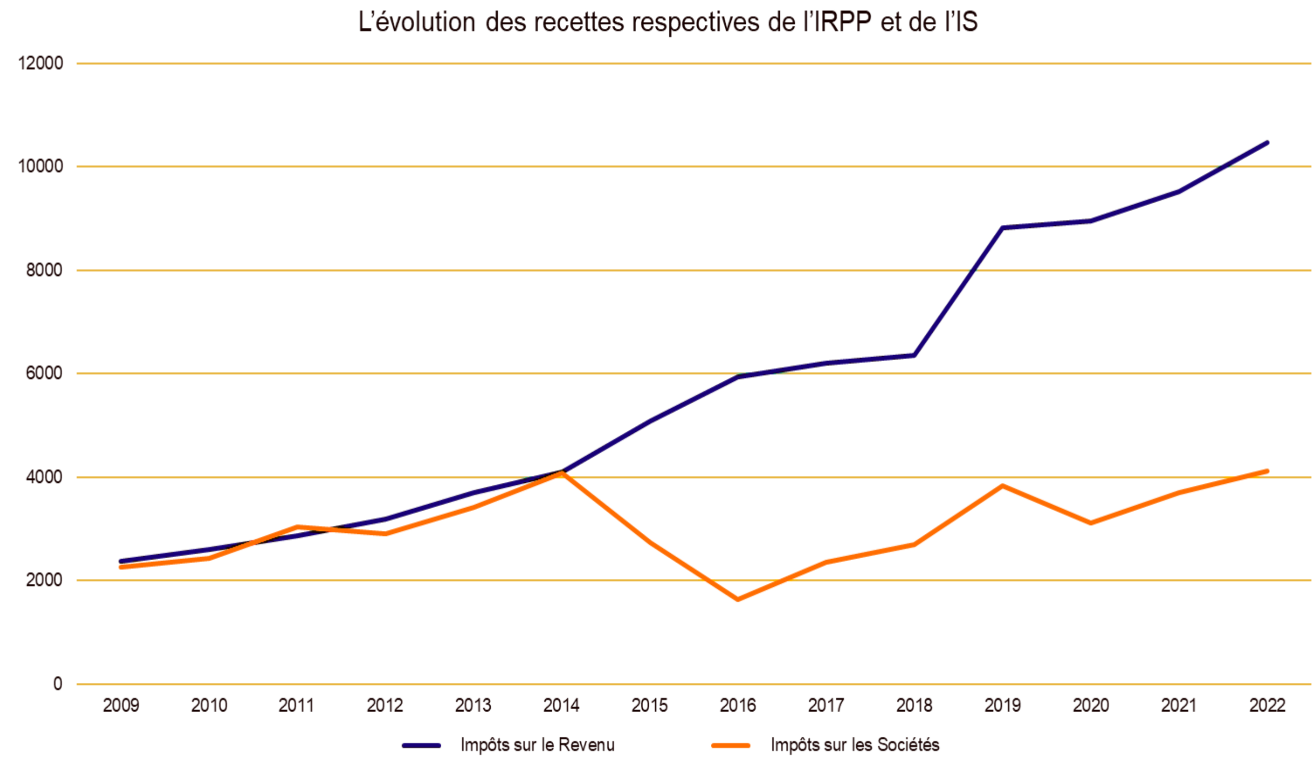
In the same way, tax cuts for companies are also presented as a lever to reduce tax evasion, even for economic actors operating in the organized economy. In fact, this narrative explains tax evasion by an excessive tax burden. A reduction in the tax burden would, therefore, encourage tax-recalcitrant companies to declare all of their profits, and thus pay all of the taxes due.

Tax cuts are also justified by the need to support economic growth. The assumption is that the taxes not levied by lowering the rates would allow companies to invest these sums and create jobs, thus contributing to economic growth. More generally, a tax incentive would make the economy more attractive, especially to foreign investors.

In conclusion, according to the same narrative, a decrease in the rate of the corporate tax would result in an increase in government tax revenues through growth and an increase in the corporate tax base.

2.3 Impact of Tunisian tax policy on corporate profits

The graph below describes the evolution of tax revenues generated by the corporate income tax (IS) and compares them with those generated by the personal income tax (IRPP) over the last 13 years:



(Evolution of the corporate income tax and the personal income tax, Personal income tax revenues, corporate income tax revenues)
Author: AWC.
Source: Tunisian Ministry of Finance.

Far from achieving the objectives proclaimed at each tax cut, the reality shows a stagnant or even decreasing trend in the revenues of the corporate income tax. In fact, with the entry into force of the 5% reduction of the corporate income tax rate in 2014, revenues have fallen drastically. It is only in 2022 that the revenues of the corporate income tax will barely recover its pre-2014 yield. The latter was somewhat equivalent to that of the personal income tax. In contrast, since 2014, revenue from the personal income tax has grown exponentially, offering a contribution to tax revenues that is almost more than double that of corporate income tax in 2022.

This graph only partially indicates the flagrant imbalance between corporate and household taxation, since the latter bear the brunt of the tax effort in a policy that violates tax justice. It undeniably indicates the derisory nature of the contribution of companies in the national tax effort and a budgetary space not exploited and weakened despite its vitality for the Tunisian public finances. The budgetary and social roles of the state have been sacrificed for economic objectives that failed to be achieved, in terms of job creation, expansion of the corporate income tax base, attraction of foreign direct investment and support for economic growth.[10]

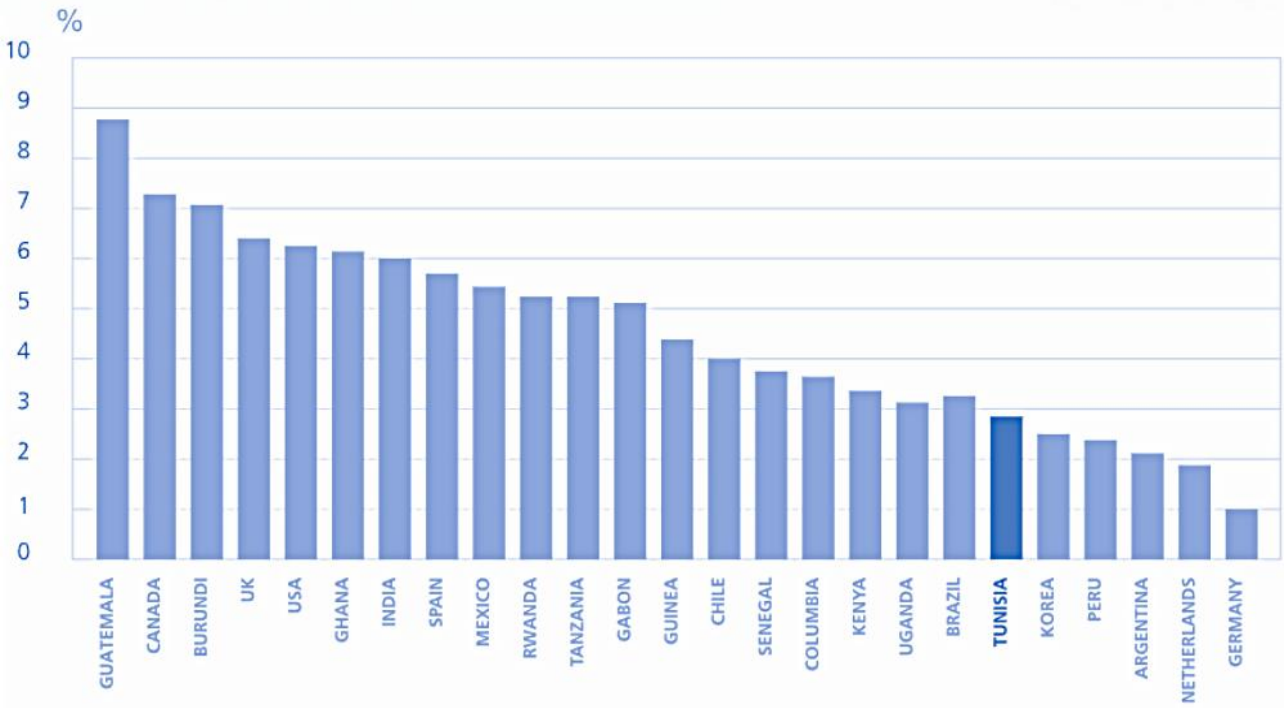
Beyond the multiple and important cuts in the general rate of the corporate income tax, the tax incentives whose self-proclaimed objectives largely intersect with the latter, whether on a sectoral or more general scale, the observation is all the more alarming. Indeed, the Ministry of Finance has

[10] Kais ATTIA, Sahar MECHMECH, "Decade of Austerity", Al Bawsala, pages 22 and following, link: https://www.albawsala.com/ar/publications/rapports/20225523

estimated the financial cost of 256 of the 339 measures recorded (70%). This cost amounts to 7.7 billion dinars.[11]

In 2016, the IMF had ranked Tunisia as one of the countries that spend the most on tax benefits:

Figure 12: Coût des dépenses fiscales par pays



Auteur : FMI,<<Tunisie, Evaluation de la transparence des finances publiques>>, rapport du FMI N°16/339, november 2016
Source : Banque Mondiale,<<Effectiveness of tax incentives in developing countries - Evidence and policy implications>>.

(Cost of tax expenditures by country)

While studies are unanimous around the lack of importance of tax incentives in decisions of private foreign investment,[12] Tunisia continues to choose to deprive itself of very large sums that could be redirected towards more decisive investment (infrastructure, qualification of labor ...), especially as the Tunisian economy lags behind its regional counterparts and continues to rack up significant trade and budgetary deficits.

In addition, these tax incentives largely benefit big companies that have the human resources to optimize their taxes in the face of the multiplicity and scattering of tax benefits in various legislative devices. For instance, the financial statements published by companies listed on the stock exchange, including those that are supposed to be subject to the 35% rate, show a very important tax optimization, making, in most cases, the effective rate of corporate tax extremely low.

---

11 Idem, page 30.

12 Amine BOUZAIENE, "Les avantages fiscaux, une perte de revenus pour les caisses de l'État pour un bénéfice incertain", Observatoire Tunisie de l'Économie, November 2018, link: https://cajf.org/publications/les-avantages-fiscaux-une-perte-de-revenus-pour-les-caisses-de-letat-pour-un-benefice-incertain/

In addition to the financial cost directly generated by the loss of revenue, tax expenditures can be used as a tool for tax evasion, particularly when used to manipulate transfer prices.[13]

In this context, the Finance Decree-Law for the year 2023 provides for an annual increase in corporate income tax for the years 2023, 2024 and 2025, through the social solidarity contribution (CSS) of

3% with a minimum of 400 dinars for companies subject to the general rate of 15%,

4% with a minimum of 400 dinars for companies subject to the specific rate of 35%.

At the same time, the CSS has been reduced from 1 to 0.5% for the IRPP.
Even though the yield of corporate income tax is expected to increase by 8% compared to the previous year, the contribution of companies to the national tax effort through this tax remains at a very low level, limited to only 12.5% of tax revenues.

While it is a start, the new CSS measure is still very inadequate to achieving a better balance between corporate and household taxation. The shortcomings identified call for far more ambitious and appropriate responses.

2.4 Alternatives: Involving large companies

The proposed alternatives aim to guarantee that companies contribute their fair share to the tax effort, allowing public finances to rely on additional national resources, axing public policies more on the principle of tax justice. This allows for a better balance between corporate taxation and household taxation on the one hand, and tax equity between SMEs and large companies on the other.

2.4.1 Restoring a measure of progressivity to the corporate tax system.

It should first be noted that the current taxation of corporate profits is not properly progressive, unlike the case for corporate income tax in Morocco, where the rate increases as corporate profits increase according to three tax brackets. However, the specific rate of 35% does provide a measure of progressivity for corporate income tax insofar as it applies to the aforementioned rentier sectors.

Outside these specific sectors, the taxation of corporate profits at the general rate of 15% does not distinguish fiscally between microenterprises or small and medium-sized enterprises (SMEs) on the one hand, and large enterprises and multinational firms on the other.
It is therefore necessary to restore a dose of progressivity at this level as follows:

Restrict the 15% rate to companies with a turnover not exceeding:
- 1 million dinars for transfer activities and purchase-sale activities,
- 500 thousand dinars for service activities and non-commercial professions.
- Restore the general rate up to 25%.

[13] Sahar MECHMECH, "Les avantages fiscaux : un fardeau pour les finances publiques", Al Bawsala, August 2020, link: https://cajf.org/publications/les-avantages-fiscaux-un-fardeau-pour-les-finances-publiques-sahar-mechmech-al-bawsala/

The proposed rates and their corresponding base draw from the legislation recently applied in Tunisia. In fact, the base proposed for the special rate of 15% would be based on the one that was applied in Tunisia for a specific rate of 20% and repealed by Article 14 of the Finance Act 2021[14] .

With the proposed system for corporate income tax, Tunisia would not be at a disadvantage in terms of tax competitiveness, especially compared to these alleged competitors, including Morocco. Under its Finance Act 2023, Morocco intends to reform its corporate tax to set the following rates by 2026:

20% for companies whose net taxable profit is less than MAD 100,000,000

35% for companies whose net taxable profit is equal to or greater than MAD 100,000,000[15]

The proposed system, while still competitive, would also allow Tunisia to move away from the standards of tax havens with its current low rate of corporate income tax and its many tax incentives.

Moreover, such a proposal would make it possible to re-establish greater tax equity between microenterprises and SMEs on the one hand and large companies on the other, by ensuring that they receive different tax treatment that takes into account effectively different economic realities.
In the same way, it would make it possible to reduce the flagrant imbalance between the taxation of companies and that of households by abolishing the scurrilous tax privileges currently enjoyed by large companies in Tunisia.

By making the latter contribute, this reform would generate significant tax resources, a very needed measure given the complicated situation of Tunisian public finances.

2.4.2 Introducing a tax on corporate "super profits"

This taxation can take different forms, permanent or temporary, proportional or progressive, grafted onto the corporate tax rate in the manner of the CSS, or as a tax in its own right. Ideally, it would be a new permanent and progressive tax.

A measure that can be considered as super profit, for example, is an increase in profits that amounts to or is greater than 30% of an average of the profits recorded by the company over the three or five years preceding.

An example of such a policy can be found in France, where the four political parties forming the first parliamentary opposition propose to tax companies whose additional taxable income is at least 1.25 times the average income of the years 2017, 2018, 2019, with a progressive tax scale of 20%, 25% or 33%.

France is one of the last countries in Europe that has not yet adopted the taxation of super profits. Countries as neoliberal as Germany, the United States and the United Kingdom have already adopted it. So have Greece, Romania, Hungary and Spain... Italy doubled it in May 2022, barely 2 months

14 Common Note n°9 of the year 2021, Direction Générale des Études et de la Législations Fiscales, link: https://doc-fiscale.finances.gov.tn/cimf-internet/page/document/fr/preview?path=/Notes%20communes/2021/Note%20Commune%20n%C2%B09-1.pdf

15 Circular note n°733 relating to the tax provisions of the 2023 finance law, Moroccan Ministry of Economy and Finance, link: https://www.finances.gov.ma/Publication/dgi/2023/NoteCirculaireN733-2023.pdf

after its implementation. Institutions such as the IMF, the OECD and the European Commission recommend it.[16]

It is a lever of solidarity in the national effort to fight against economic crises, and Tunisia stands to benefit from it. Tax efforts would hold more appeal by everyone, and would generate more popular consent, if those who gorge themselves during crises, such as banks who have seen record profits, are contributing through this tax.

The tax on super profits would undoubtedly generate significant resources for the State, given the record profits achieved in certain sectors such as banking. The Covid-19 pandemic and the Russian invasion in Ukraine have benefited certain sectors or companies, such as private clinics and laboratories, large-scale distribution, wholesale of medical equipment and medicines, etc., which could show solidarity with their people by contributing to the taxation of super-profits. In contributing to national resources, these policies also send a message of social peace and fiscal justice.

2.4.3 Eliminate Inefficient Tax Benefits

The aim is to adopt a purely pragmatic approach aimed at eliminating tax incentives that prove to be ineffective in relation to the objectives assigned to them. To do this, it is necessary to evaluate, one by one, all the incentives, both in financial terms and in terms of a cost-benefit relationship.

The Minister of Finance announced the government's intention to strongly streamline this arrangement in accordance with the agreement in principle that has been established with the IMF.[17] Such an approach would allow Tunisia to make very significant savings. The Ministry of Finance's non-exhaustive assessment of the loss of revenue due to the above-mentioned tax expenditures already represents 155% of the revenue from corporate income tax, 88% of the total cost of price subsidies, and 103% of the budget deficit forecast by the 2023 Finance Law.

A rationalization of tax benefits on the basis of proven efficiency would therefore be likely to generate very significant tax revenues. In addition, indirect financial benefits would be recorded by the simplification of the Tunisian tax system which currently suffers from hundreds of measures of exceptions to the standards of principles scattered in several laws (various tax codes and special laws) and at all legislative levels (legal and regulatory). A strong rationalization of this tax incentives would make the tax system more understandable, especially to investors, and less susceptible to fraud.

16 Oxfam, « Taxation des superprofits », september 2022, link : https://www.oxfamfrance.org/wp-content/uploads/2022/09/Briefing-superprofits-Oxfam-France.pdf

17 Interview with the Minister of Finance, Attessia TV, link : https://www.youtube.com/watch?v=AkIyLPMwPbM&ab_channel=AttessiaTV

Chapter 2: Abolishing The Tax Privileges of The Richest

A paradigm shift that places tax justice at the center of public policy issues would rehabilitate the capacity of taxation to redistribute wealth and significantly affect social inequalities. In this sense, it would be necessary to abolish tax privileges for high incomes and large estates.

2.1 Abolish tax privileges for high earners

2.1.1. <u>Income tax policy in Tunisia</u>

- Categorized by the Tunisian legislator into industrial and commercial profits (BIC), non-commercial profits (BNC), agricultural and fishing profits and salaries, the income from work is taxed in a progressive manner according to the following scale:

Tax brackets in Dinars	Marginal rates	Effective rate at upper limit
From 0 to 5.000	0%	0%
From 5.000,001 to 20.000	26%	19,5%
From 20.00,001 to 30.000	28%	22,33%
From 30.000,001 to 50.000	32%	26,20%
Over 50.000	35%	

Capital income is subject to proportional taxation at a rate of 20%.

The income tax scale has been revised twice since the structural adjustment plan, the last of which was the work of the 2017 Finance Act:

TRANCHES DE REVENUS IMPOSABLES EN DINARS	TAUX D'IMPOSITION
De 0 à 1500 Dinars	0 %
De 1500,001 à 5000 Dinars	15 %
De 5000,001 à 10000 Dinars	20 %
De 10000,001 à 20000 Dinars	25 %
De 2000,001 à 50000 Dinars	30 %
Au-delà de 50000 Dinars	35 %

TRANCHES DE REVENUS IMPOSABLES EN DINARS	TAUX D'IMPOSITION
De 0 à 5000 Dinars	0 %
De 5000,001 à 20000 Dinars	26 %
De 20000,001 à 30000 Dinars	28 %
De 30000,001 à 50000 Dinars	32 %
Au-delà de 50000 Dinars	35 %

(Taxable income brackets in dinars, tax rate)

The 2017 reform has reduced the progressiveness of income tax with the transition from a scale with 6 tax brackets to a scale that has 5. The lower bracket exempting income up to 1500 dinars and which was indexed to the level of the minimum annual wage when it was introduced in 1990 has been expanded to 5000 dinars, making up for a 17-year delay when it was not updated.

The reduction in the tax burden on low-income earners has been offset by an increase in the tax burden of the middle class.

The upper bracket set at 50,000 dinars in 1990 with a tax rate of 35% has remained unchanged. The high incomes thus keep a tax status quo despite the extraordinary evolution they have experienced. Overall, the Tunisian tax policy in terms of income taxation has kept the same paradigm, in contrast to the revision that was put in place in 1990 reflecting the guidelines of the structural adjustment plan.

TRANCHES D'IMPOSITION EN DINARS	TAUX MARGINAUX
De 0 à 900 Dinars	0 %
De 900 à 1300 Dinars	5 %
De 1300 à 1500 Dinars	10 %
De 1500 à 2000 Dinars	15 %
De 2000 à 2500 Dinars	20 %
De 2500 à 3000 Dinars	25 %
De 3000 à 3500 Dinars	30 %
De 3500 à 4000 Dinars	36 %
De 4000 à 5000 Dinars	42 %
De 5000 à 6000 Dinars	48 %
De 6000 à 8000 Dinars	54 %
De 8000 à 10000 Dinars	56 %
De 10000 à 14000 Dinars	58 %
14000 à 25000 Dinars	60 %
De 25000 à 40000 Dinars	62 %
De 40000 à 60000 Dinars	64 %
De 60000 à 80000 Dinars	66 %
Au-delà de 80000 dinars	68 %

TRANCHES DE REVENUS IMPOSABLES EN DINARS	TAUX D'IMPOSITION
De 0 à 1500 Dinars	0 %
De 1500,001 à 5000 Dinars	15 %
De 5000,001 à 10000 Dinars	20 %
De 10000,001 à 20000 Dinars	25 %
De 2000,001 à 50000 Dinars	30 %
Au-delà de 50000 Dinars	35 %

(Marginal tax rates)

Through successive revisions of the personal income tax starting with the 1986 structural adjustment plan, Tunisia has abandoned a pre-1986 scale with 16 tax brackets, with fairly progressive rates and an upper marginal rate of 68% applying to more than 80 000 dinars. Instead, this "reform" has enacted the transition to a scale comprising only 6 brackets with a marginal rate of 35% applying to 50,000 dinars only. Thus, the taxation policy, which consisted in spreading the tax effort equitably between all strata of, was abandoned in favor of a policy concentrating all the tax effort on the middle class and privileging the high incomes.

The progressivity of income taxation has been drastically weakened, thus inhibiting a historically efficient lever in the redistribution of wealth and the reduction of income inequalities. Like corporate profits, high incomes are also of interest in discussions around tax competition. The logic is that high income individuals would settle (and thus pay taxes) in places that favor them. This logic has resulted in a levelling down of the Tunisian tax system, depriving the country of important tax resources.

2.1.2 Putting the squeeze on high earners

It is proposed here to tax the highest incomes with a tax rate of 60%.

With this in mind, the organization Al Bawsala proposes, for example, to change to the following scale: [18]

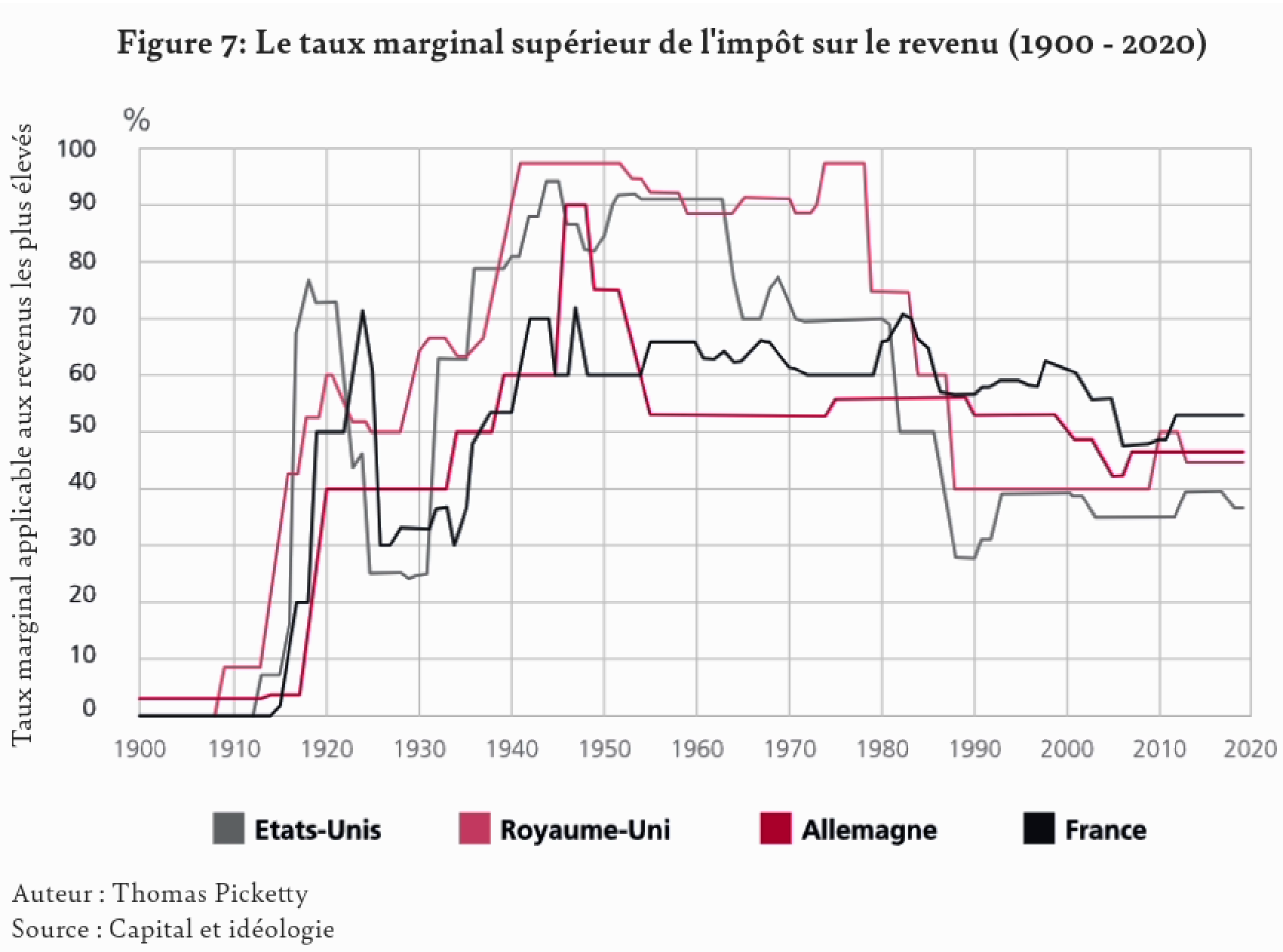
Current scale				**Alternative scale**			
Tax brackets in Dinars		Marginal rates	Effective rates at the upper limit	Tax brackets in Dinars		Marginal rates	Effective rates at the upper limit
0	5 000	0%	0%	0	5 501	0%	0%
5 000	20 000	26%	19%	5 501	7 945	5%	1,54%
20 000	30 000	28%	22,33%	7 945	9 168	10%	2,67%
30 000	50 000	32%	26,20%	9 168	12 224	15%	5,75%
Over $50,000		35%		12 224	15 280	20%	8,60%
				15 280	18 336	25%	11,33%
				18 336	21 392	30%	14%
				21 392	24 448	36%	16,75%
				24 448	30 559	42%	21,80%
				30 559	36 671	48%	26,17%
				36 671	48 895	54%	33,13%
				48 895	61 119	56%	37,70%
				61 119	85 566	58%	43,50%
				85 566	152 797	60%	50,76%
				152 797	244 475	62%	54,98%
				244 475	366 713	64%	57,98%
				366 713	488 922	66%	59,99%

18 Bouzaïene (A), " La justice fiscale, un enjeu de survie à la portée de la Tunisie ", Al Bawsala, link, https://www.albawsala.com/ar/publications/rapports/20225132?fbclid=IwAR2BoEu9s-0Tg1pS3h0N_KvdlnWff32j1Kq6GhKE9nTo5yaCA0qGNJNRIwE

	Above 488,922		68%	

Methodologically, this proposal takes up the scale that was repealed by the structural adjustement plan by upgrading it according to the evolution of the minimum wage and inflation, in the absence of a current database on the configuration of Tunisian household incomes. In this sense, an upper marginal rate of 68% would apply to an upper bracket of more than 488 922 dinars of annual income.

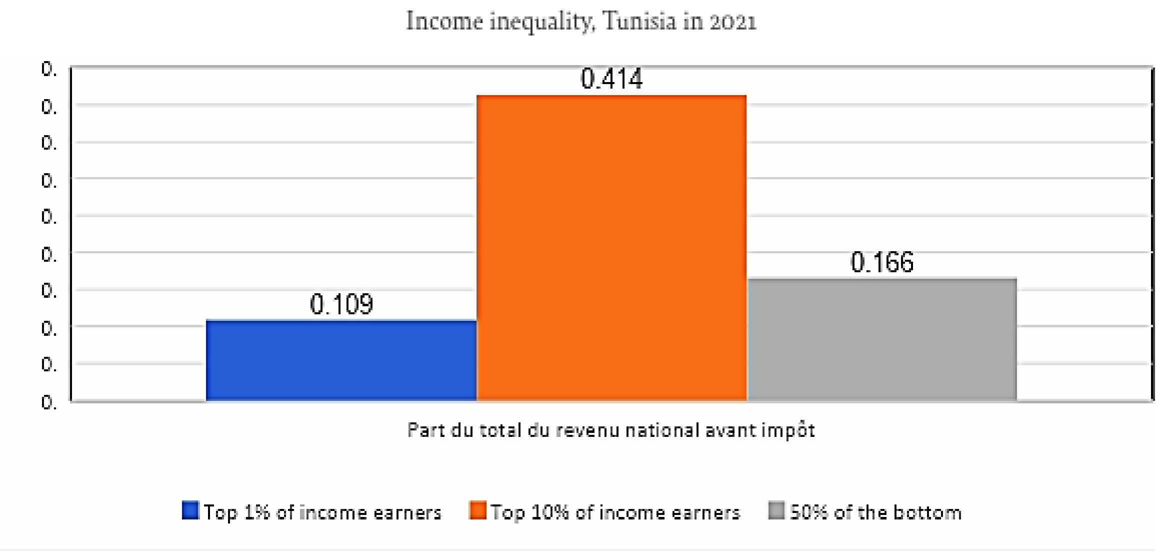
Opting for a much more ambitious tax policy in terms of progressivity would mean adopting a policy that has long been proven to work and that was applied even in the most liberal countries.



(Higher income tax rate)
Source: Picketty (T), "Capital and Ideology", éditions du Seuil, September 2019, link: piketty.pse.ens.fr/ideology

The graph above shows the evolution of the top marginal rate in the United States, the United Kingdom, Germany and France over 120 years and gives an extraordinarily long trend in income tax policies in these countries. After a turbulent birth phase, the progressive income tax has lasted for more than 4 decades, in times of crisis (the financial crisis of 1929, the world wars) as well as in times of prosperity ("the 30 glorious years"), in an effective progressive configuration. The scales included a high number of brackets, with evolving rates, including a very high top marginal rate. For example, in the 1960s, the United States applied a scale with 24 tax brackets and a top marginal rate of 91% before falling into the era of neo-liberalism under Reagan in the 1980s.

Renewing such policies would be wise for Tunisia, especially in view of income inequalities.



(Share of total national income before tax.)
Source: World Inequality Database, link: https://wid.world/fr/country/tunisie/

The graph above shows that a minority of people hold very large shares of the national income. The richest 1% has a share equivalent to 10.9% and the richest 10% has more than 40%.
Taxing the highest incomes would therefore make it possible to release very significant tax resources to meet the country's very critical budgetary challenges.

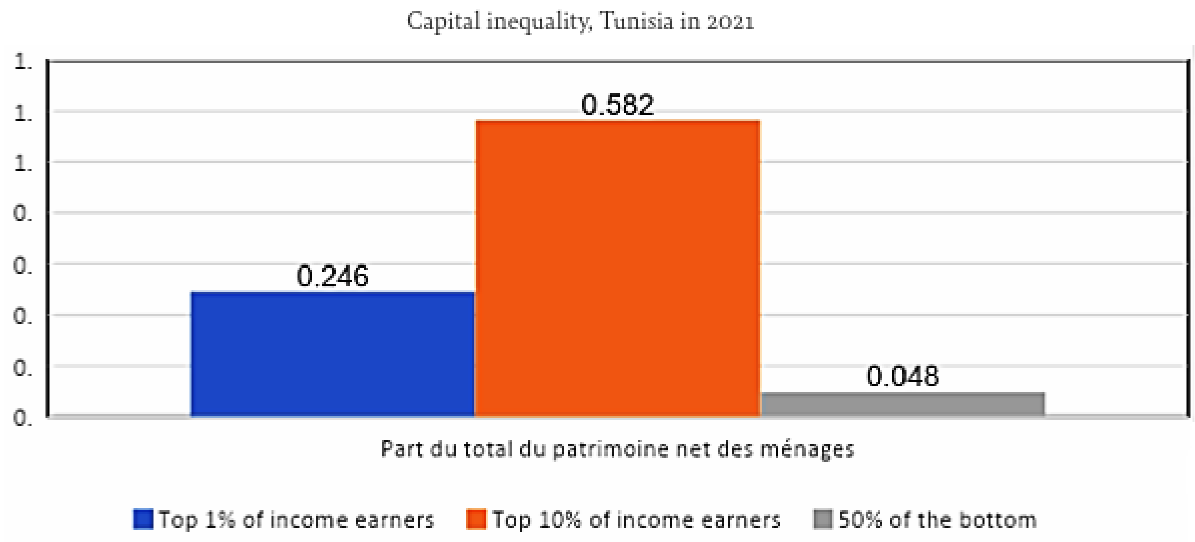
At the same time, this would renew the redistributive capacity of the Tunisian taxation and its ability to significantly reduce the inequalities.

This would also act to support economic growth. Many studies, including those of the IMF, have shown that income inequality is a barrier to "sustainable economic growth".[19]

2.2 Abolish the tax privileges of large estates

Despite it being one of the historically traditional taxation levers, Tunisian tax policy is largely weak when it comes to the taxation of assets. The current policy does not manage to contain the inequalities of wealth, which are even more glaring than those of income.

19 Le monde, "Income inequality hurts growth", link: https://www.lemonde.fr/economie/article/2015/06/15/les-inegalites-de-revenus-nuisent-a-la-croissance_4654546_3234.html



(Share of total net household wealth)
Source: World Inequality Database, link: https://wid.world/fr/country/tunisie/

The graph above indicates that the share of the 1% wealthiest represents approximately one quarter of the total net wealth. That of the richest 10% reaches almost 60% of the total while the share of 50% of Tunisians does not exceed 5% of the total.

In order to correct these gaping inequalities, it is necessary to lay the foundations for a real overhaul of the taxation of capital by calling on three essential levers: real estate taxation, inheritance taxation, and taxation of large fortunes or wealth.

2.2.1 Taxing large properties for property tax purposes

Property tax in Tunisia is made up of two local taxes, the tax on built-up areas (TIB) and the tax on unbuilt land (TNB).

- The TIB is calculated on the basis of 2% of the reference price per square meter built for each category of building, multiplied by the area covered at rates ranging from 8% to 14%.
- The tax on undeveloped land calculated on the real market value of the land at a rate of 0.3%.

According to the High Instance of Local Finance,[20] the TIB generates revenues of 34.8 million dinars and the TNB generates 29.7 million dinars for a ridiculous total of 0.16% of the total tax revenues of the State.

Tunisia must urgently reform this tax to make it more progressive and must give itself the means for its effective implementation because it is completely inconceivable that such a tax has a return almost zero.

20 High Instance of Local Finance, Second Annual Report, 2020, page 34, link : http://www.collectiviteslocales.gov.tn/wp-content/uploads/2022/04/HIFL_Rapportannuel_2020.pdf?fbclid=IwAR2xPIAn_Q1oYAw3f9kj8Z_5g9yP4ov5zAp9OFd8FlwfpnauETJ0_sE6LP8

2.2.2 Leveraging High Estates :

Inheritances are taxed in Tunisia in a proportional manner at rates varying between 2.5% and 35% depending on the degree of kinship.

It is therefore a very unfair tax because of its indifference at the level of the succession. It is also insufficient for high inheritances and is therefore not able to limit the scope of the inequalities that recur between generations.

It is therefore proposed to abolish this tax in favor of a progressive tax with a bracket exempting the smallest estates and evolving rates allowing the highest to be taxed.

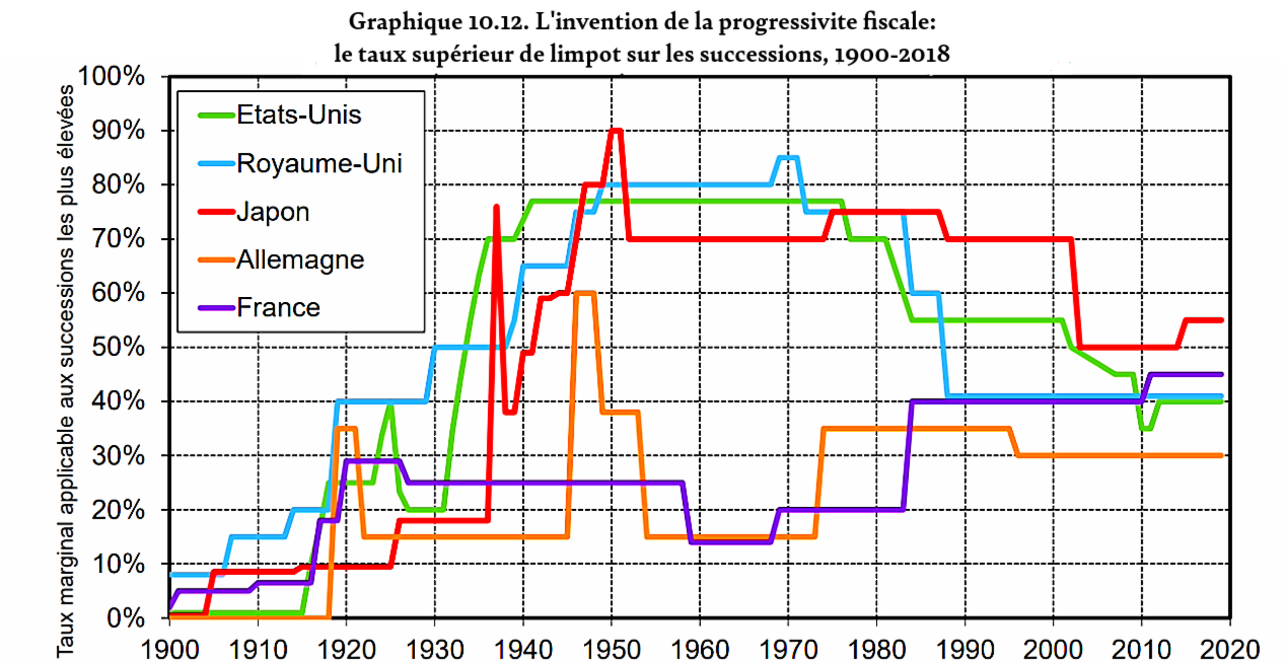


Diagram: the invetion of tax progressiveness : the higher rate of import on successions.
Source: Picketty (T), "Capital and Ideology", éditions du Seuil, September 2019, link: piketty.pse.ens.fr/ideology

This chart shows the evolution of the top estate tax rate over more than a century in the United States, the United Kingdom, Japan, Germany and France. For the first three countries in particular, the historical trend is quite similar to that of income tax. This rate was close to 80% in the United States and the United Kingdom for three decades. The top rate in Japan is currently 55%, whereas it had reached 90% in the 1950s. None of the five countries has a proportional estate tax.

The first parliamentary opposition in France, the New Ecological and Social Popular Union, aims to introduce a top marginal rate of 100% by proposing to "increase inheritance tax on the highest wealth by accounting for all gifts and inheritances received throughout one's life and create a maximum inheritance of 12 million euros (i.e., 100 times the median net wealth) and by eliminating tax benefits that allow the wealthiest to escape inheritance tax".[21]

[21] Shared Government Program of the New Ecological and Social Popular Union, May 2020, link: https://nupes-2022.fr/le-programme/9

2.2.3 Strengthen the tax on large fortunes

For the first time in its history, Tunisia has introduced a tax on real estate wealth through the Finance Act for the year 2023. It is a proportional tax that applies annually at a rate of 0.5% on :

- Real estate located in Tunisia, regardless of the owner's place of residence
- real estate located in Tunisia or abroad that is owned by individuals resident in Tunisia.

The main residence and real estate intended for a professional activity (with the exception of property rented to third parties) are excluded from the basis of assessment of this tax. The total of the real estate assets targeted by the wealth tax must have a minimum effective value of 3 million dinars.

While this is undoubtedly a measure in the direction of tax justice, it would benefit from being strengthened as follows:

- In terms of the form of taxation, proportionality can be abandoned in favor of a progressive scale with at least four brackets, as in the case of the tax on real estate wealth in Algeria or the solidarity tax on wealth in France.
- In terms of tax rates, the current rate of 0.5% can be applied to the lower bracket by providing for an evolution by 0.5% on each bracket thus reaching a higher rate of 2%.
- At the level of the tax base, it can be reinforced by two levers:
  - Abandoning the total exemption of the principal residence and real estate used in a professional activity in favor of an abatement up to 30%.
  - Include financial assets.

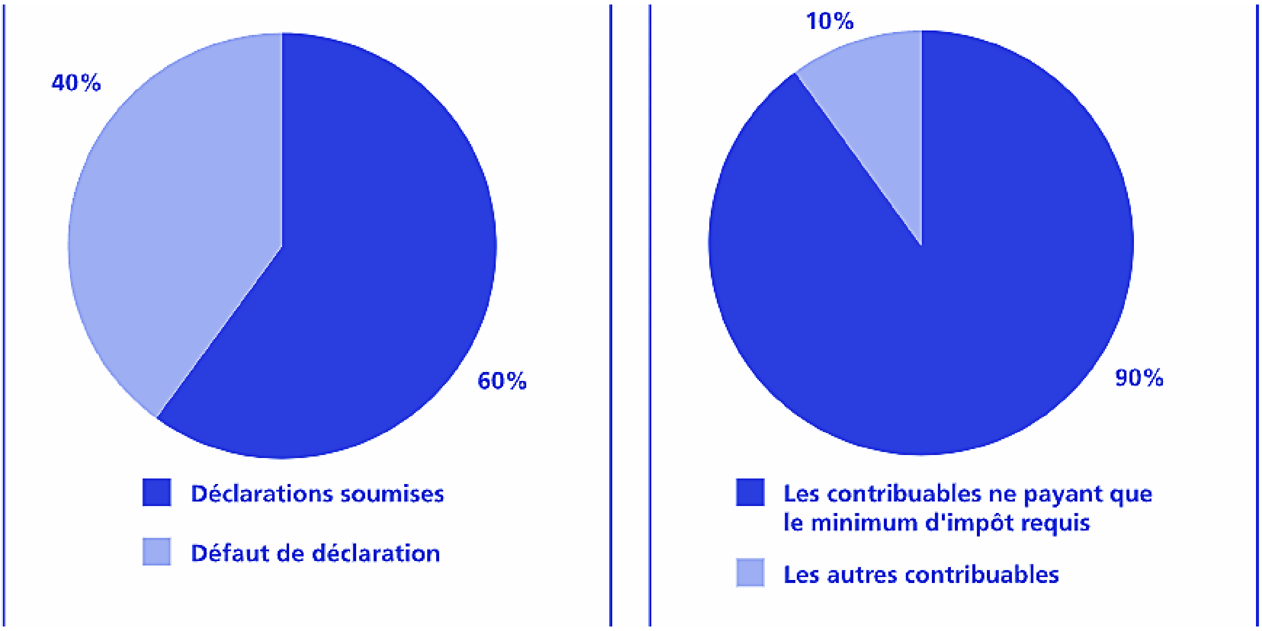
Thus strengthened, the wealth tax can be more of a lever for solidarity.

Chapter 3: Leading the Relentless Fight Against Tax Evasion and Fraud

3.1 Tax evasion and avoidance exacerbate the injustices of Tunisian tax policy

The massive trend of fraud and tax evasion causes very significant losses of up to 25 billion dinars.[22] This amount represents more than 60% of tax revenues, 100% of resources from borrowing, and more than three times the projected budget deficit for the year 2023.

This phenomenon does not affect all categories of taxpayers in the same way. Indeed, some categories of income are characterized by a derisory tax yield. This is for example the case of the liberal professions[23] or of the more than 400.000 taxpayers, industrialists and traders, fraudulently accommodated in the fixed regime.



Submitted declarations
Failure to file.
Taxpayers paying only the minimum tax requirement
Other taxpayers
Source: Ministry of Finance, Finance Bill 2021 Report, page 52, https://urlz.fr/gIp2

22 Oxfam, "Tax justice in Tunisia, a vaccine against austerity", Page 4, link: https://oi-files-d8-prod.s3.eu-west-2.amazonaws.com/s3fs-public/2020-06/La%20justice%20fiscale%20en%20Tunisie%20un%20vaccin%20contre%20l%E2%80%99aust%C3%A9rit%C3%A9.pdf

23 Amine Bouzaïene " Tax justice in Tunisia, an ideal trampled by debt policies ", Friedrich-Ebert-Stiftung, November 2021, pages 8-9, link : https://cajf.org/publications/la-justice-fiscale-en-tunisie-un-ideal-pietine-par-les-politiques-dendettement-amine-bouzaiene-friedrich-ebert-stiftung/

90% of those who file tax returns only pay the minimum tax required by Tunisian law, while 40% of all this category fail to file.

The derisory nature of the contribution of these categories of income means that the bulk of the tax effort falls on employees. Thanks to the withholding tax mechanism, they have no room for maneuver in tax evasion.

In addition to the low rates on large estates, property taxes are also massively evaded, depriving the community of the tax contribution of property owners, thus accentuating an already unfair tax policy.

Similar to withholding taxes for personal income tax, the locking of the system also ensures that consumers, especially the working classes, do not shirk the payment of regressive taxes on consumption. The latter represents the backbone of Tunisian tax policy, which relies on indirect taxation for 59.8% of total tax revenues, considerably increasing the imbalance between household and corporate taxation. Despite the low rates of taxation on their income, "... almost half of the companies (46%) fail to declare their income, making them de facto in tax evasion. 19% declare a loss and are thus not taxable, and 11% declare that they broke even, thus also not paying corporate income taxes. Effectively, only 24% of the companies make a taxable declaration and are, of course, suspected to under-declare the profits actually recorded".[24]

Despite the importance of this scourge of tax fraud and the losses it causes, tax legislation has been made more permissive to tax evasion through the manipulation of transfer prices. Indeed, the Finance Act 2021 has limited the declaration of such transactions to companies with a net profit after tax of 400,000 dinars, only transactions in excess of 100,000 dinars and only with companies located abroad, while this obligation previously concerned all companies with a turnover of 20 million and this, for all transactions and all associated companies. Thus, "... the 2021 finance law has emptied the legislation framing the rules of transfer pricing of its content, thus sending a message of endorsement towards tax evasion by large companies."[25]

Far from addressing the country's budgetary issues, such a fiscal policy harms the purchasing power of households and violates their economic and social rights since loss of revenue from such evasion results in fewer public services, especially in the vital sectors of health, education, transport and housing. In the same way, this policy does not support the fight against poverty and social inequalities because the missing revenues affect the budget allocated to the minimum social benefits, which remains at a derisory level.

3.2 Providing the means for a relentless fight against fraud and tax evasion

Legislative provisions to fight against fraud and tax evasion are essential, starting with the repeal of the provisions of the Finance Act 2021 on transfer pricing. It is also imperative for Tunisia to act at the administrative and judicial level. In this sense for it is necessary to recruit, by thousands of human resources sorely lacking at these two levels.

24 Idem, page 17.
25 Idem, page 18.

To ensure the effectiveness and efficiency of the efforts to fight tax fraud, it is imperative to provide these human resources with the necessary logistical and technological tools and to reinforce their technical abilities to audit companies and keep UpToDate with the latest tax fraud schemes.

Indeed, the tax administration suffers from serious deficiencies that make current tax audit procedures largely outdated,[26] especially as it lacks the human and material resources to collect taxes and fight against tax fraud.

High-level capacity-building programs must be put in place to enable tax auditors to keep up with the complexity and rapid evolution of tax optimization and evasion schemes set up by large economic groups.

[26] Mechmech (S), "L'administration fiscale tunisienne, un outil en panne", Al Bawsala, https://budget.marsad.tn/ar/blog/reports/2020/tax-aministration

Conclusion and Summary of Recommendations

The acute crisis of public finances, the lack of growth of the national economy, and the inequalities tearing Tunisian society apart are not inevitable. Provided that it changes its fiscal policy paradigm, Tunisia can acquire significant resources of its own while reducing inequalities through the redistributive tax norm.

The situation of Tunisian public financing is the most delicate it has ever been in the recent history. This vulnerability is evident through the aforementioned budgetary imbalances, including the unprecedented difficulties in financing the national budget through external borrowing. Tunisia might secure a new loan agreement with the IMF. The reputational gains from such an agreement may also allow it to access more bilateral loans, helping it face its current budgetary constraints.

However, this risks further entrenching the country in a vicious circle of perpetual debt and austerity. In fact, in the case that Tunisia signs on to a 4th program with the IMF, we can expect the continuity, if not the aggravation, of the current public policies, which have persisted since the structural adjustment plan. The failed present policies have led to the current structural weaknesses that plagued the Tunisian economy even before the two exogenous shocks of COVID-19 and the Russian invasion of Ukraine.

By outlining proposed alternatives, this report offers both an escape out of the current crisis, as well as a way to effectively cut ties with the fiscal policies of the last 30 years. The supposedly sacrosanct imperative of fiscal competitiveness has long been the driver behind such policies that have drastically weakened the capacity of states to mobilize its own domestic resources and have prevented taxation mechanisms from playing their role as a lever to reduce inequalities.

Tunisia no longer has the space to continue to privilege its already privileged class. The abolition of tax incentives through alternative policies. This abolition is the only way out of the debt crisis for Tunisia, and would put the public interest back at the heart of the political process.

In this sense, it is necessary to revisit the contribution of companies to the national tax effort by targeting the largest of them:

1. Restrict the base of the 15% tax rate to microenterprises and SMEs,
2. Return to a general corporate tax rate of 25%,
3. Institute a new, permanent and progressive tax on the super profits of large corporations, i.e., profits that exceed by 30% the average of a company's profits over the three fiscal years preceding the tax.
4. These measures would reduce the flagrant imbalances in tax contributions of households and those of companies, as well as send a strong message of fiscal justice to all taxpayers. Additionally, it would allow the state to mobilize significant domestic resources through the increased contributions of big companies and multinationals, while also respecting tax equity between the latter and SMEs.
5. Evaluating tax expenditure, one by one, and cancelling inefficient ones.

Outlined steps would allow Tunisia to:

- Enjoy significant savings in public spending, through the recovered (partially) estimated cost of tax incentives, that already accounts for 7.7 billion Dinars, despite their proven inefficiency.
- Simplify tax legislation, giving that the arsenal of tax incentives exists throughout multiple texts. As such, the Tunisian fiscal system can be more comprehensible and thus accessible, particularly for investors.
- Decrease the use of certain tax fraud instruments such as transfer pricing abuse, and therefore gaining savings that would have otherwise been lost to tax fraud.
- Making taxation fairer and more just, especially considering that these incentives are used largely by high-income and wealthy individuals and big companies.

It is also necessary to revolutionize the income tax by:
6. Taxing the highest incomes at a rate of 60% and by providing this tax with a high degree of progressivity through a high number of brackets and evolving rates.
With such a reform, the personal income tax could be the linchpin of an alternative fiscal policy. This would allow the state to directly address income inequality and increase its tax revenues through a higher contribution by high-income groups whose tax potential is significant, especially considering the high degrees of inequalities existent in Tunisia.

In the same way, an overhaul of capital taxes is essential,
7. By reforming the TIB and TNB to allow for higher rates on larger properties,
8. By making inheritance taxes progressive, allowing higher rates to be applied to the highest value estates.
9. Strengthening the newly instituted wealth tax by broadening its base and introducing progressive taxation.
Wealth taxes are already redistributive, giving the fact that they apply to assets. As such, these taxes, especially as they become more progressive, can represent true levers for resource mobilization, as well as for wealth redistribution. They have potential for collecting significant revenues for the state, all while reducing the large, existing wealth inequalities.

Finally,
10. It is proposed to provide the country with the human and material means necessary to carry out a relentless fight against fraud and tax evasion.
This signifies addressing the significant failures and weaknesses of the human and logistical resources of the tax administration, allowing Tunisia to effectively implement its laws and fight against tax fraud and evasion. Such reforms are also able to stop the financial hemorrhaging associated with tax fraud, through building favorable terrain for voluntary adhesion to tax contributions.

Bibliography

Amine BOUZAIENE, "Tax justice, a survival issue within Tunisia's reach", Al Bawsala, link, https://www.albawsala.com/ar/publications/rapports/20225132?

Amine BOUZAIENE " Tax justice in Tunisia, an ideal trampled by debt policies ", Friedrich-Ebert-Stiftung, November 2021, link : https://cajf.org/publications/la-justice-fiscale-en-tunisie-un-ideal-pietine-par-les-politiques-dendettement-amine-bouzaiene-friedrich-ebert-stiftung/

Amine BOUZAIENE, "Equité fiscale et système d'imposition en Tunisie," Observatoire Tunisie de l'Économie, November 2017, link: https://cajf.org/publications/equite-fiscale-et-systeme-dimposition-en-tunisie-amine-bouzaiene/

Amine BOUZAIENE, "Les avantages fiscaux, une perte de revenus pour les caisses de l'État pour un bénéfice incertain", Observatoire Tunisie de l'Économie, November 2018, link: https://cajf.org/publications/les-avantages-fiscaux-une-perte-de-revenus-pour-les-caisses-de-letat-pour-un-benefice-incertain/

High Instance of Local Finance, second annual report, 2020, link : http://www.collectiviteslocales.gov.tn/wp-content/uploads/2022/04/HIFL_Rapportannuel_2020.pdf?fbclid=IwAR2xPIAn_Q1oYAw3f9kj8Z_5g9yP4ov5zAp9OFd8FlwfpnauETJ0_sE6LP8

Kais ATTIA, Sahar Mechmech, "Decade of Austerity", Al Bawsala, link: https://www.albawsala.com/ar/publications/rapports/20225523

Le monde, "Income inequality hurts growth", link: https://www.lemonde.fr/economie/article/2015/06/15/les-inegalites-de-revenus-nuisent-a-la-croissance_4654546_3234.html

Ministry of Finance, tax reform process, link: http://dev.finances.gov.tn/old/version2/images/Presentation_louti_.pdf

Néji BACCOUCHE, "Impôt, révolution, et démocratisation du système politique tunisien", Revue Tunisienne de Fiscalité n°18, Centre d'Études Fiscales de la Faculté de Droit de Sfax, 2012.

Common Note n°9 of the year 2021, Direction Générale des Études et de la Législations Fiscales, link: https://doc-fiscale.finances.gov.tn/cimf-internet/page/document/fr/preview?path=/Notes%20communes/2021/Note%20Commune%20n%C2%B09-1.pdf

Circular note n°733 relating to the tax provisions of the 2023 finance law, Moroccan Ministry of Economy and Finance, link: https://www.finances.gov.ma/Publication/dgi/2023/NoteCirculaireN733-2023.pdf fbclid=IwAR2BoEu9s-0Tg1pS3h0N_KvdlnWff32j1Kq6GhKE9nTo5yaCA0qGNJNRIwE

Oxfam, "The Law of the Richest", 2023, link: https://www.oxfamfrance.org/wp-content/uploads/2023/01/Davos_2023_french_full_report.pdf

Shared Government Program of the New Ecological and Social Popular Union, May 2020, link: https://nupes-2022.fr/le-programme/9

Report on Tax Expenditures and Fiscal Benefits, Ministry of Finance, 2023, link: http://www.finances.gov.tn/sites/default/files/2023-01/10.pdf

Sahar MECHMECH, "Les avantages fiscaux : un fardeau pour les finances publiques", Al Bawsala, August 2020, link: https://cajf.org/publications/les-avantages-fiscaux-un-fardeau-pour-les-finances-publiques-sahar-mechmech-al-bawsala/

Sahar MECHMECH, "L'administration fiscale tunisienne, un outil en panne", Al Bawsala, https://budget.marsad.tn/ar/blog/reports/2020/tax-aministration

Thomas PICKETTY, "Capital and Ideology", éditions du Seuil, September 2019, link: piketty.pse.ens.fr/ideology

World Inequality Database, link: https://wid.world/fr/country/tunisie/