

# FAIR TAXATION IN THE MIDDLE-EAST AND NORTH AFRICA



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Views here do not necessarily represent those of the IMF, its Executive Board, or IMF management

Context

# Fairness: Unfulfilled Aspirations

- Aspirations for greater fairness were at the core of protests that triggered the Arab Spring
- They remain unfulfilled: political uncertainty, lack of structural reforms, and slow growth
- Fiscal policy plays several roles including helping raise fairness:
  - Recent policies focused on spending measures
  - Now, we turn to the revenue side

# Tax Reform Can Help

- Taxation is a critical interface between the state and citizens
- How much revenue is raised, how the tax burden is distributed, and how taxation is implemented:
  - Have pervasive effects on both individuals and businesses
  - Affect reality and perception of economic opportunities
  - Shape trust in government

# Taxation and Fairness

- Not only about treatment 'richer' and 'poorer'
- But also like treatment of like
- And non-abusive, convenient collection
- With value for money from the government

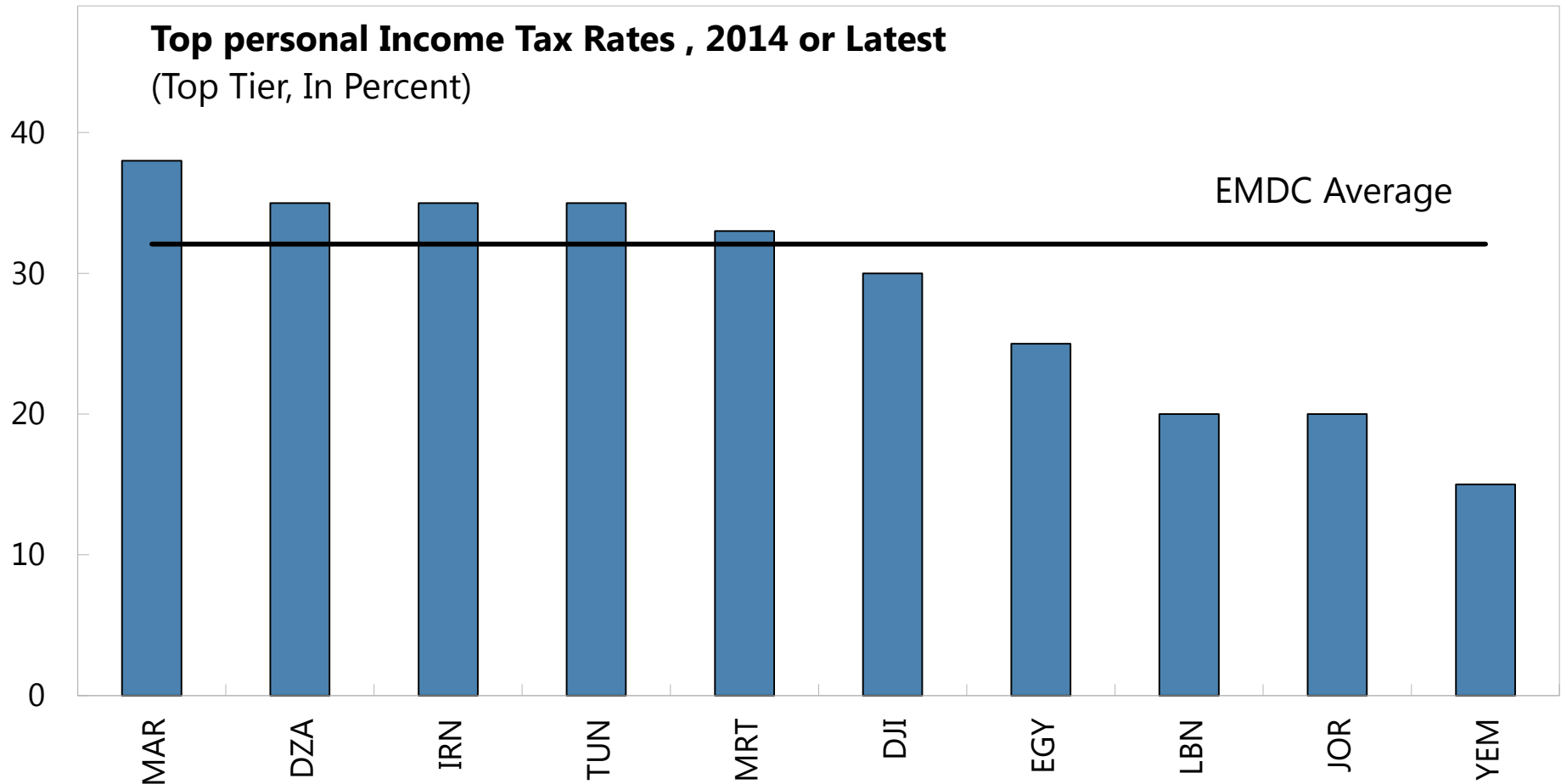
Where do the region's tax systems stand?

# Two Broad Types of Tax System in MENA

- Diverse and well-established tax systems
  - Oil importers
  - Algeria, Iran, and Yemen
- Hydrocarbon-based revenue systems
  - Oil exporters

# Diverse and Established Tax Systems

Top personal income tax rate often low and applies to few

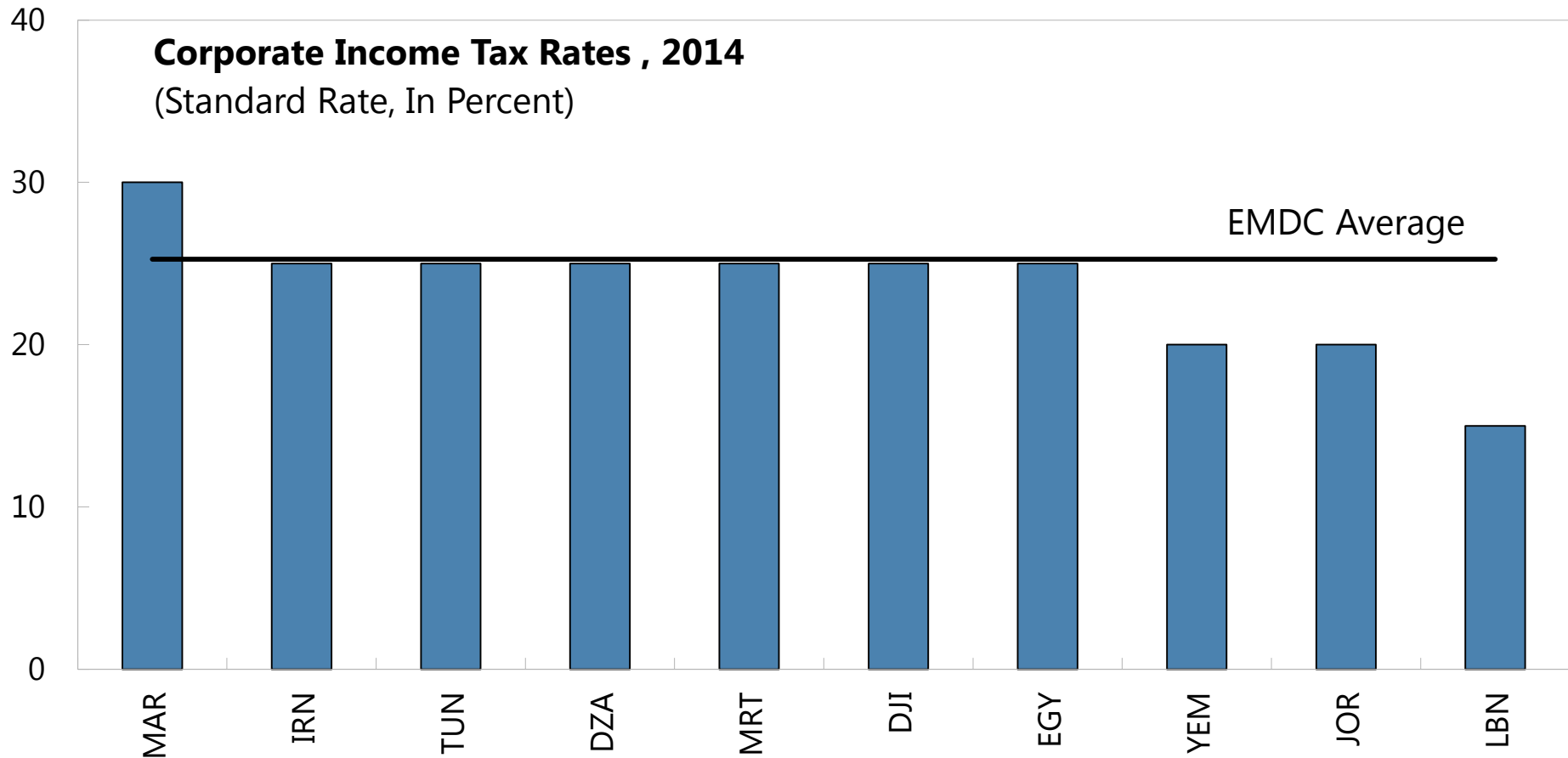


Sources: National authorities; KPMG; Deloitte; and IMF staff calculations.



# Diverse and Established Tax Systems

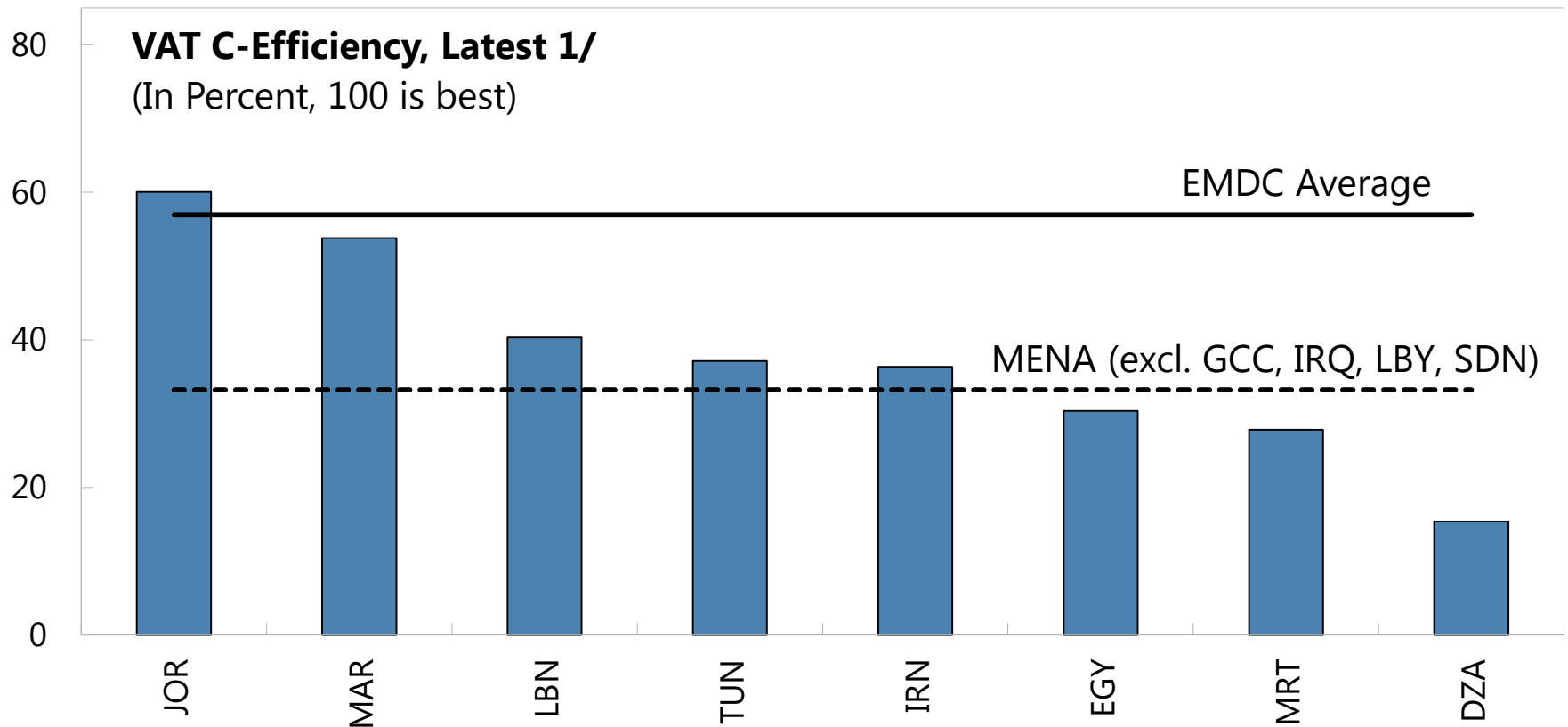
Corporate tax rates comparable to EMDCs but privileged often enjoy exemptions



Sources: National authorities; KPMG; Deloitte; and IMF staff calculations.

# Diverse and Established Tax Systems

Indirect taxes: Exemptions and multiple rates worsen progressivity and efficiency



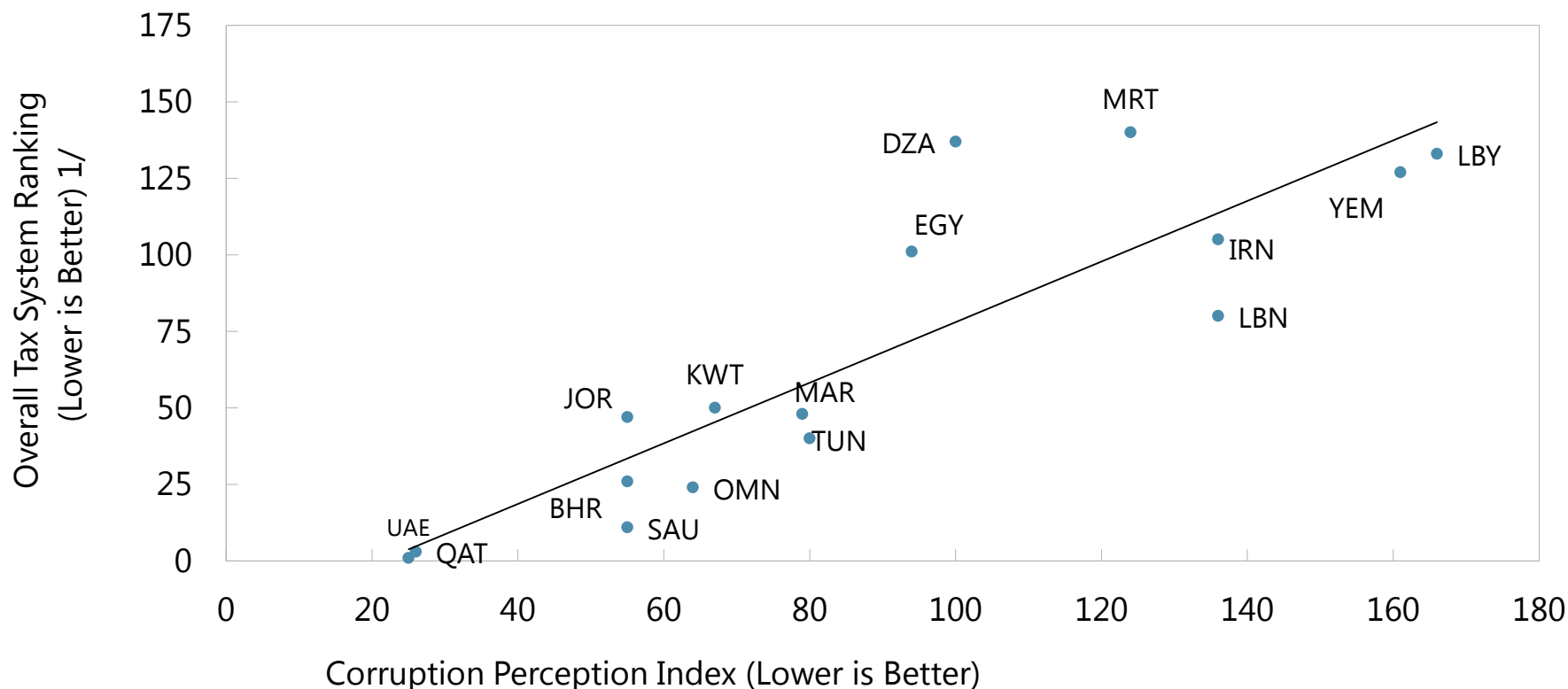
Sources: National authorities; and IMF staff calculations.

1/ Calculated as VAT revenue divided by the product of VAT rates and private consumption.

# Diverse and Established Tax Systems

Burdensome tax administration associated with unfair treatment of citizens and businesses

## Tax System Efficiency and Corruption



Sources: World Bank; World Economic Forum; Transparency International; and IMF staff calculations.

1/ Equal weighted ranking of the burden of customs procedures for businesses, the number of tax payments per year, and the time spent on taxes per year.

# Hydrocarbon-Based Systems

- PIT is rare and mainly applied to foreigners
- CIT and trade taxes are the main non-resource taxes
- Systematic indirect taxes, such as VAT, do not exist in the GCC and Libya

**Making these tax systems fairer?**

# Diverse and Established Tax Systems

## Personal Income Taxes: Raise Progressivity

- 3-4 rates rising with income
- Apply to all income types

## Widen Taxable Bases

- Eliminate CIT exemptions
- Reduce and better target indirect tax exemptions

## Simplify

- Consolidate multiple VAT rates
- Reduce number of CIT rates

## Introduce or Better Design Property Taxes

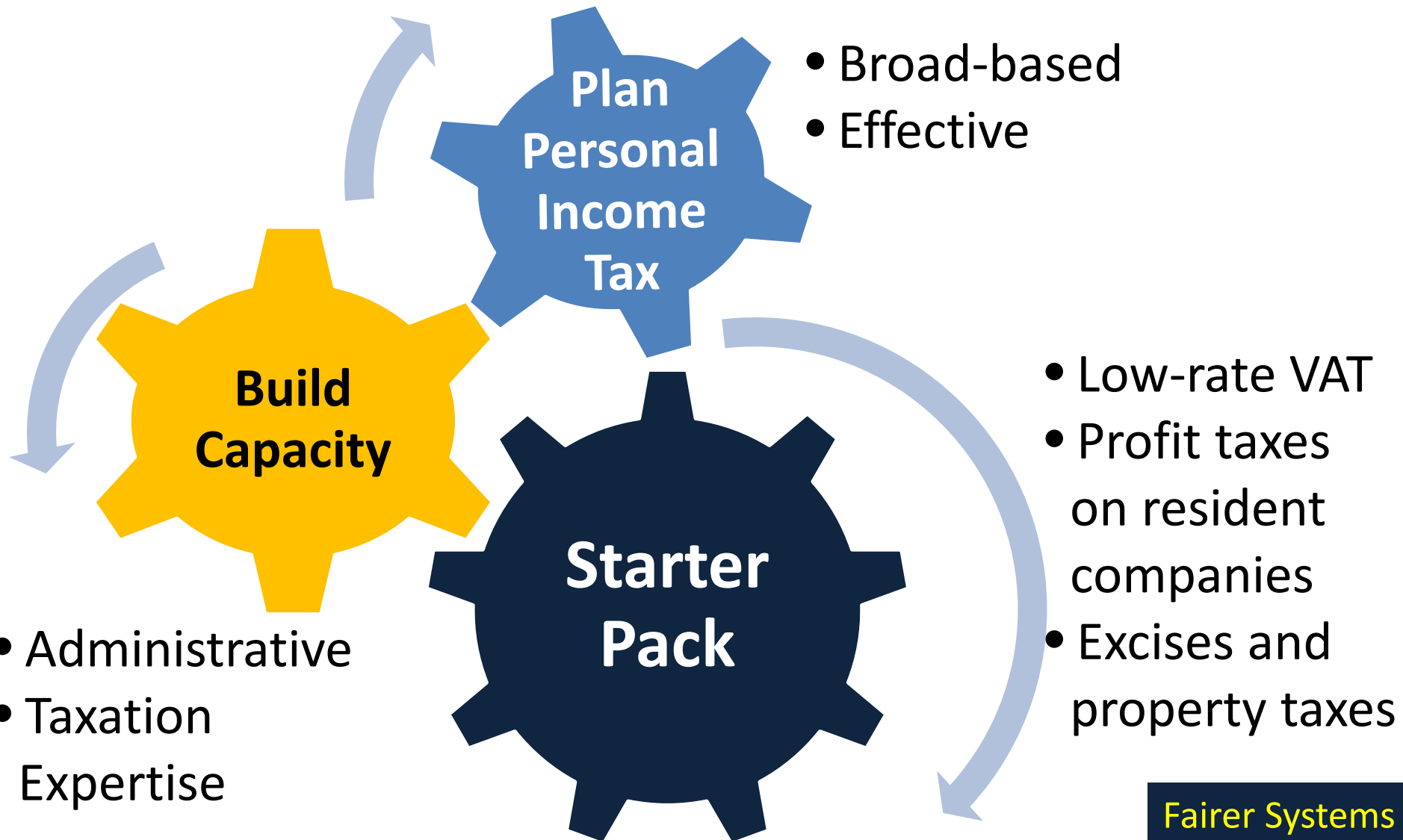
## Tax and Customs Admin: Raise User-Friendliness

- Customer service
- Simplify codes and regulations

# Hydrocarbon-Based Systems

- Broadening tax system will raise revenues and is needed to support longer-term economic diversification/replace declining resource revenues
- Opportunity to leap frog into a system consistent with fairness

# Hydrocarbon-Based Systems (cont'd)





# Tackling Political Economy Challenges

Necessary elements for successful tax reform:

- Effective communication
- Transparency
- Constructive dialogue between the state and citizens

Issues

- How quickly should governments proceed?
- Packaging and sequencing?
- How best to couple tax and spending measures to enhance fairness?
- What more can be done to tackle political economy challenges?
- What is the role of external partners?

IMF STAFF DISCUSSION NOTE

## Fair Taxation in the Middle-East and North Africa

Andrew Jewell, Mario Mansour,  
Pritha Mitra, and Carlo Sdravovich

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# INEQUALITY and FISCAL POLICY



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