STUDY

TAX JUSTICE IN TUNISIA: AN IDEAL CRUSHED BY DEBT POLICIES

Amine Bouzaiene
November 2021

The Tunisian tax system, which was shaped by debt policies, preaches competitiveness and investment attractiveness while constantly moving away from the ideal of tax justice.

Tunisia has adopted fiscal policies since the end of the 1980s that weaken the country's ability to mobilize its own resources and push it dangerously into a vicious circle of debt.

These fiscal policies, which were severely aggravated after the Tunisian revolution, have resulted in the continuous deterioration of public services, growing injustice in the distribution of the tax burden, and, in the end, deepening poverty and social inequalities.

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FRIEDRICH EBERT STIFTUNG

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1

INTRODUCTION

Tunisia has recently experienced a major turning point in the post-revolutionary process. Indeed, the 25th of July 2021, which is also the 64th anniversary of the Tunisian Republic, a number of demonstrations erupted throughout the country. The President of the Republic decided on the same evening to invoke Article 80 of the Constitution which allows him to declare a state of emergency and to assume the legislative power. In addition, he decided to suspend the activities of the Assembly of People's Representatives and to dismiss the government. As a result, the country is moving towards major political reforms affecting the system of power organization as well as the electoral system. The previous decade did not respond to the popular demands of the Tunisian revolution for democracy and social justice. The same development model, which failed at the time of the revolution, has been renewed and even worsened. It has exacerbated social tensions and accentuated the inequalities that undermine the country's social cohesion more than ever. Taxation, which is a real leverage for financing collective needs and sharing wealth, is of paramount importance in Tunisia, given the weakness of its natural wealth compared to other countries. In fact, taxes have always represented 90% of the country's own resources. The fiscal policy supporting the development model is based on the Structural Adjustment Plan of 1986. This fiscal policy has weakened the state's ability to mobilize its own resources to finance its public services and has hampered its capacity to redistribute wealth. Indeed, customs duties have been dismantled, the progressivity of income tax emptied, the regressive taxation of consumption exacerbated, the taxation of capital marginalized and the taxation of companies drastically reduced. Wealthy households and large corporations have been fiscally privileged at the expense of overtaxing workers and working classes in general. Such a policy has been worsened during the post-revolutionary decade, under the impetus of the international financial institutions, which were already driving the 1986 structural adjustment plan. No way out is possible for Tunisia without a paradigm shift in its policies. Tax justice must take precedence over the sacrosanct principle of tax competitiveness. There is no public order possible, nor even desirable, without social justice. There can be no voluntary adherence to tax payment without tax justice. This study aims to diagnose the tax policy using tax justice and equity as a framework for analysis.

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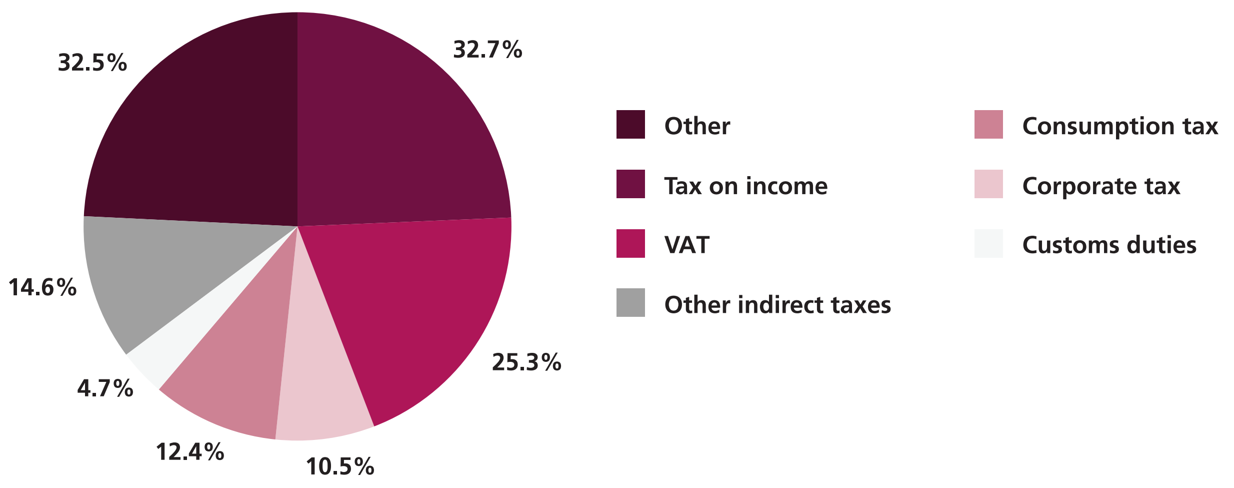
CONSUMPTION TAXATION, THE BACKBONE OF AN UNFAIR TUNISIAN TAX POLICY

The taxation of consumption is mainly carried out by two major taxes in Tunisia, the VAT and the consumption tax. These taxes, improperly called taxes, are borne by the consumer of any goods or services in an indirect manner. The consumer, being the taxpayer for these taxes, is not the one who is responsible for paying the tax contribution to the administration. These taxes are applied through single rates and are therefore not based on taxpayers' economic resources. Moreover, they are borne more by poor than rich households as a proportion of their income, and as such, are qualified as regressive taxes. Thus, they represent the most unfair tax instruments.

Figure 1

Breakdown of tax resources



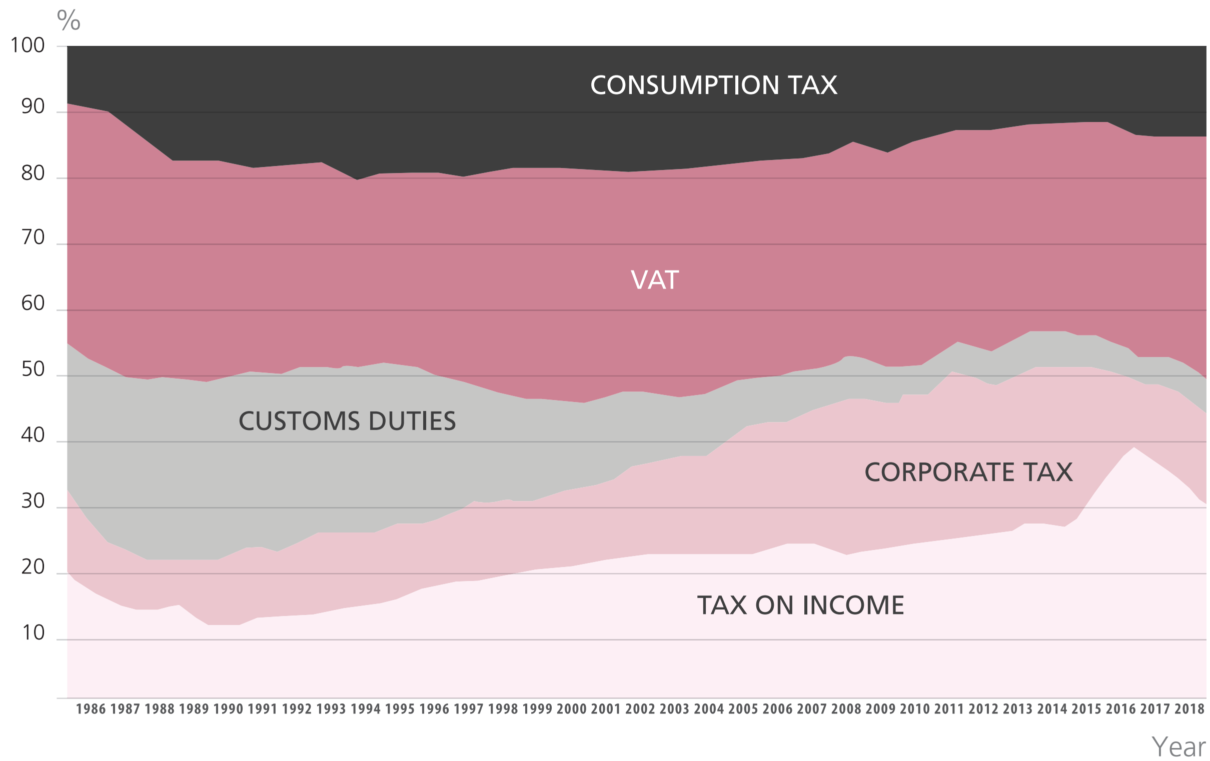
Author : Al Bawsala,

Source : Minisry of Finance, 2021 Finance Act.

We note that the 2021 budget relies heavily on indirect taxes, with VAT and consumption tax generating 25.3% and 12.4% of tax revenues respectively. Indirect taxes combined generate 57%. In this regard, the 2021 budget is far from being an exception in the Tunisian tax policy:

Figure 2

Evolution of the revenues of the 5 main taxes (1986 - 2018)



Author : Al Bawsala,

Source : Minisry of Finance, 2021 Finance Act.

This graph represents the evolution of the revenues of the major taxes in Tunisia, i.e. the taxes that generate the most tax revenues. We can easily see that, on a long-term trend, the Tunisian tax policy has always been massively based on the VAT and the consumption tax, which constitute the pillars of an unfair tax policy.

3

INCOME TAX POLICY: WAGE EARNERS BEAR THE BRUNT OF THE TAX BURDEN

MASSIVE TAX EVASION OF SELF-EMPLOYED INCOME INCREASES TAX INJUSTICE

Income tax fraud affects different income categories in different ways. This tax is locked in for the income of employees, whether in the public or private sector, due to the payment of this tax by means of withholding taxes. In fact, it is the employer who is responsible for collecting the workers' income tax and paying it to the tax authorities. Consequently, salary taxation in Tunisia does not leave room for tax evasion for workers, unlike other categories of income including industrial and commercial profits (ICP) or non-commercial profits (NCP) which suffer from massive tax evasion.

MASSIVE TAX EVASION BY MANUFACTURERS AND TRADERS

A large majority of industrial and commercial taxpayers take refuge in a tax system described as flat-rate, which consists of a real premium for fraud guaranteed by the State. While the loss of revenue due to tax evasion in this income category has never been quantified by the public authorities, there are indicators that demonstrate massive fraud.

A HUGE AMOUNT OF NON-DECLARATION

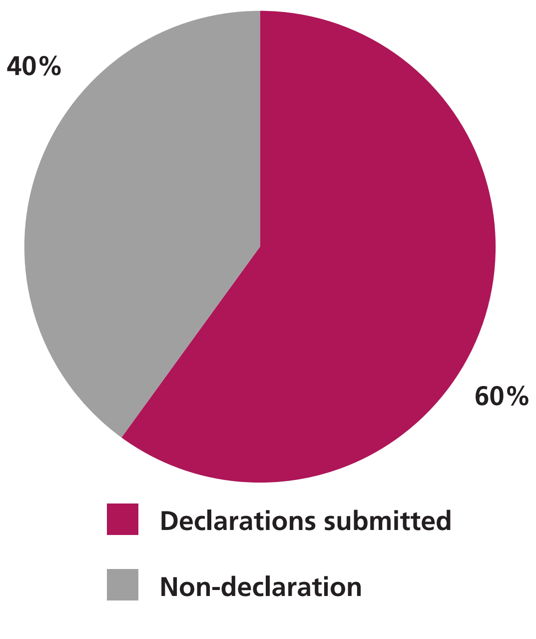
A very large segment of taxpayers, nearly 160,000, or 40% of the total number of income tax payers in this category, fail to declare and therefore make no tax contribution. The latter are therefore de facto tax evaders because of the failure to declare, given the legal obligation to do so, even if no income has been recorded or even if there is a deficit.

The remaining 60% of taxpayers who declare their taxes are not immune to tax evasion, on the contrary, the following indicators show its extent.

The predominant majority of flat-rate taxpayers who declare their income only pay the minimum tax required by Tunisian law, i.e. 100 dinars or 200 dinars depending on the area where they operate. The phenomenon of under-declaration is therefore massive, making the tax contribution of this category of income negligible.

Figure 3

Tax return rates for flat-rate taxpayers

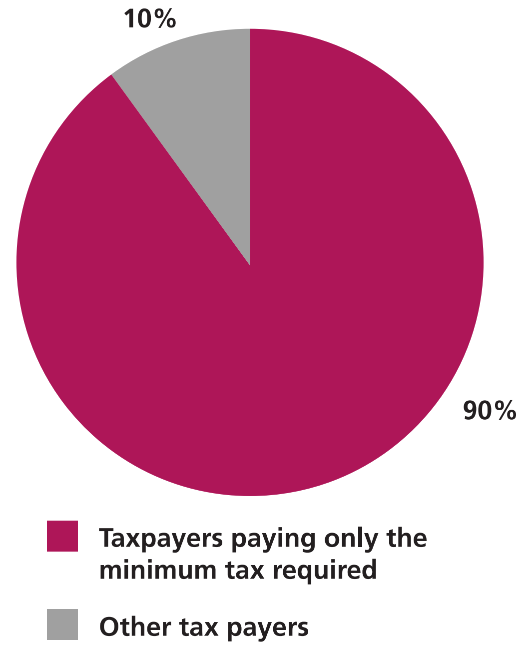


Author : Al Bawsala,

Source: Minisry of Finance, 2021 Finance Act Report, page 52,
https://urlz.fr/glp2

Figure 4

Breakdown of ICP tax contributions by amount

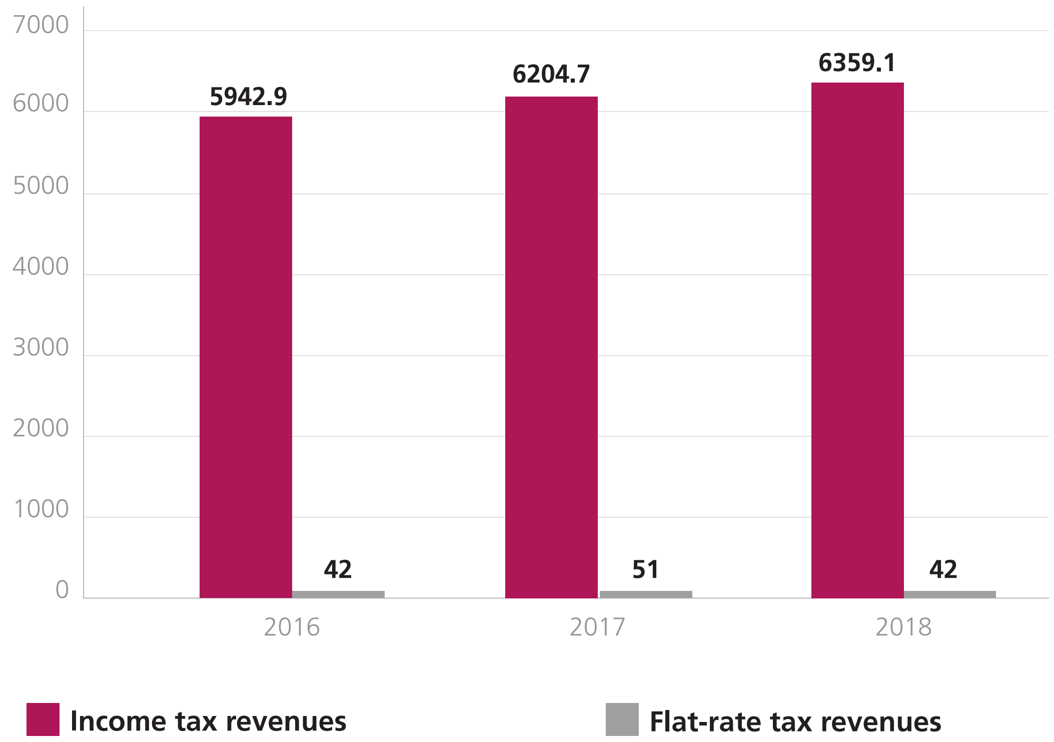


Author : Al Bawsala,

Source: Minisry of Finance, 2021 Finance Act Report, page 52,
https://urlz.fr/glp2

Figure 5

Contribution of flat-rate taxpayers to income tax revenues



Author : Al Bawsala,

Source: Minisry of Finance, 2021 Finance Act Report, page 52,
https://urlz.fr/glp2

In the years 2016, 2017 and 2018, flat-rate taxpayers contributed respectively 0.7%, 0.8% and 0.7% of total tax revenues, bringing the individual tax contribution on average to 105 dinars in 2018 or 8.75 dinars per month which represents a ridiculous contribution sharpening the tax injustice. Non-commercial profits (NCP) are also characterized by their low contribution to the tax effort.

THE MASSIVE TAX EVASION OF NON-COMMERCIAL PROFITS (NCP)

The tax revenues in this category are also characterized by their weakness, especially in view of the taxpayers' ability to pay. These include the liberal professions such as doctors, accountants, lawyers, architects, notaries, bailiffs... In 2015, there were a total of about 50,000 taxpayers. The following table highlights the lack of declaration for this category of taxpayers:

Table 1
Non-declarations of the liberal professions

	Number of taxpayers	Non-declarations	Non-declaration rates
Specialized doctor	1 189	90	**8%**
General practitioner	2 622	378	**14%**
Dentists and dental surgeons	2 921	518	**18%**
Chartered Accountant	1 133	293	**26%**
Engineering activities	109	32	**29%**
Consulting engineer	813	246	**30%**
Architect	2 762	946	**34%**
Accountant	2 041	814	**40%**
Interior designer and decorator	367	166	**45%**
Tax consulting	207	93	**45%**
Office of tax consulting and assistance	32	16	**50%**
Lawyers	7 440	3 739	**50%**
Experts in all specialties	830	411	**50%**
Surveyor draftsman, topographer	367	187	**51%**
Design office	6 764	3 459	**51%**
Consultant	8 915	4 615	**52%**
Market research and survey	2 367	1 477	**62%**

Author : Association of Tunisian Economists (ASECTU),
Source: Ministry of Finance, «Ancrage de la justice fiscale et mobilisation des ressources», ASECTU, page 42.

As a result, 27% of the taxpayers for non-commercial profits (NCP) did not declare their income, i.e. approximately 14,000.

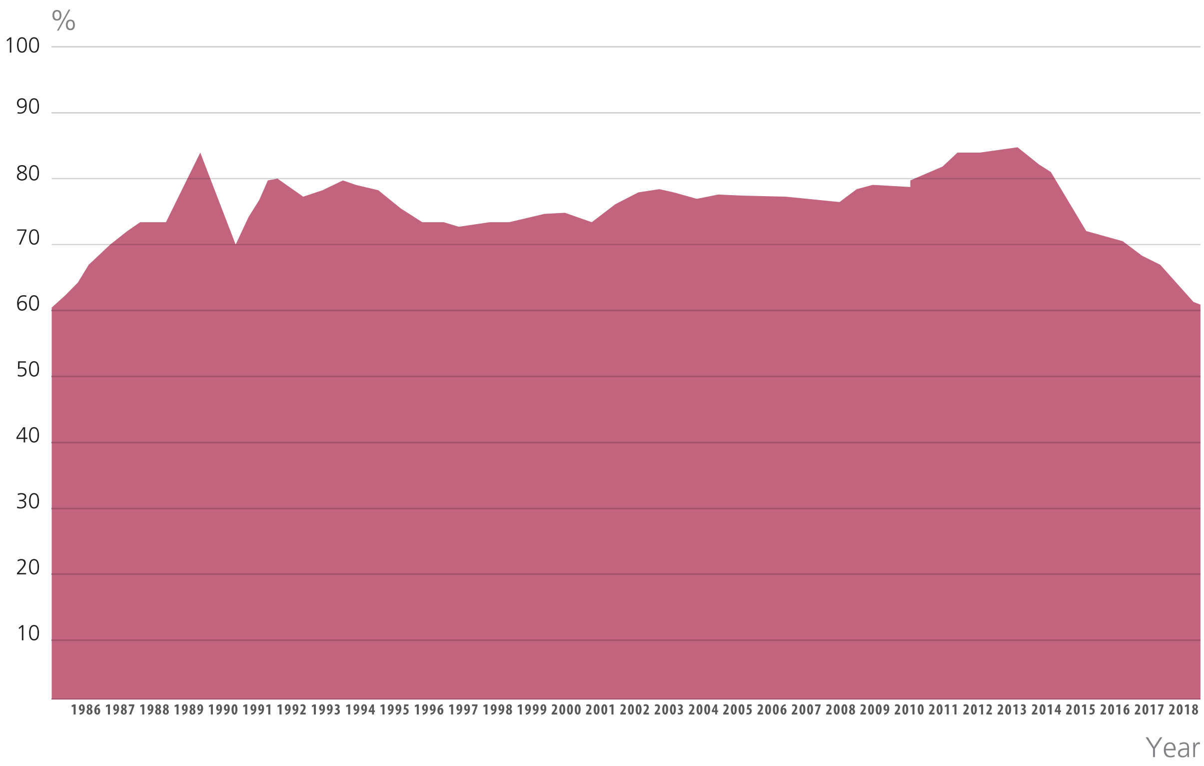
According to the same source, among those who made a tax return and who are subject to the real regime (about 20,000), one third, or 6.5 thousand, declared nothing and 14%, or 2.9 thousand, declared a deficit.

In addition to the alarming figures relating to the lack of declarations, an Inkyfada survey also shows the extent of under-declaration concerning this same category of taxpayers.

As a result, wage earners bear the brunt of the income tax burden :

Figure 6

Evolution of the structure of personal income tax revenues (1986 - 2018)



Author : Al Bawsala,

Source: Ministry of Finance.

This tax injustice continues on a long trend as shown in the graph above. Indeed, since 1986, wage earners contribute at least ¾ of the income tax revenues.

CAPITAL INCOME IS FISCALLY PRIVILEGED AT THE EXPENSE OF LABOR INCOME

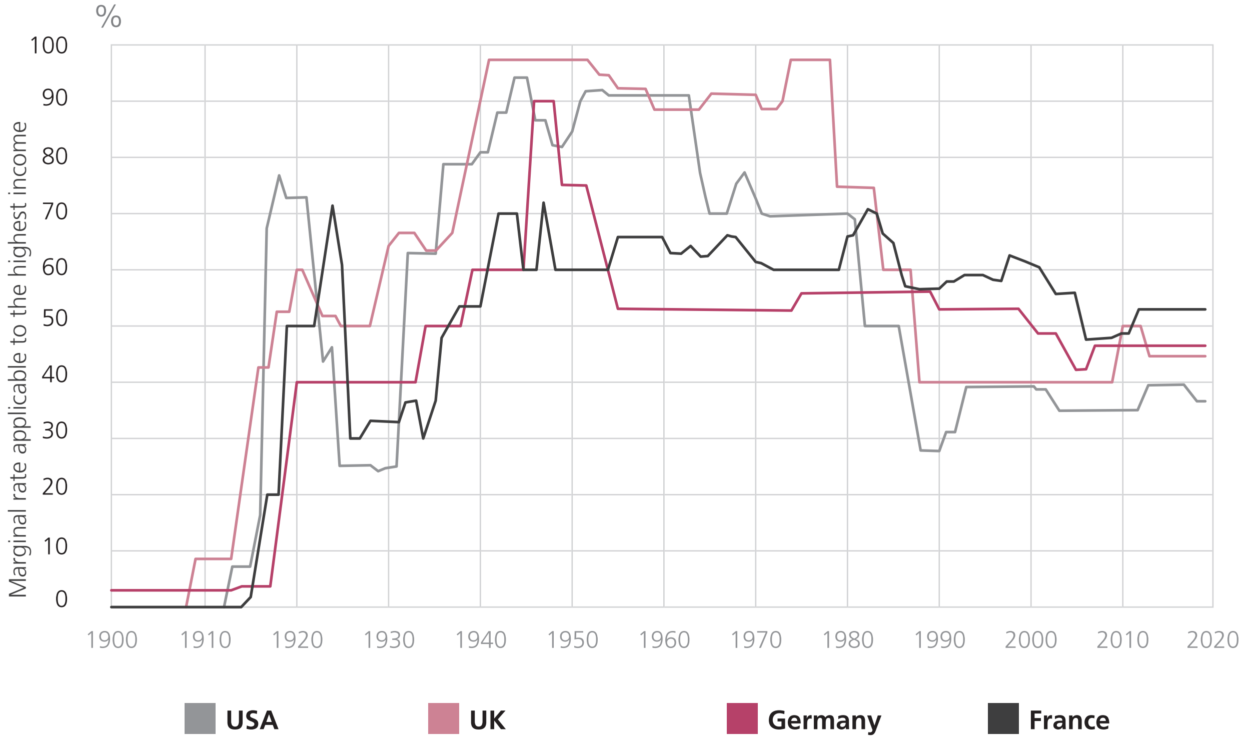
Labor income is fiscally discriminated against in comparison to capital income. In fact, aside from various tax shelters such as the flat-rate system, labor income is subject to the progressive scale of income tax. This is not the case for capital income, which benefits from preferential tax treatment. This is the income generated by holding capital, such as the income generated by shareholders in the form of dividends or generated by bank interest. This income is taxed at a rate of only 10%. This tax advantage weakens the income tax contribution of wealthy households. In terms of labor income, wealthy households are mostly favored by a non-progressive tax system that overtaxes the middle and working classes.

THE LOW PROGRESSIVITY OF INCOME TAX POLICY PRIVILEGES THE RICH AT THE EXPENSE OF WORKING-CLASS AND MIDDLE-CLASS EMPLOYEES

Under the aegis of international financial institutions and through structural adjustment plans, Tunisia has made a major and retrograde turn in the progressive policies of income taxation, in the image of the countries of the South, whether in the MENA region or in Latin America. Following the impetus of neo-liberal policies in northern countries, income tax progressivity has been dismantled by drastically reducing the number of tax brackets and shifting the tax burden onto the middle class with a policy of privileging rich households.

Figure 7

The higher income tax rate (1900 - 2020)



Author : Thomas Picketty,

Source : Capital and Ideology.

The curves in the previous graph (Figure 7) show the evolution of the top marginal rate[1] in the United States, the United Kingdom, Germany and France over 120 years. The income tax policy that prevailed in these countries both in times of crisis (the financial crisis of 1929, the Second World War) and in times of prosperity (the glorious 30s) is a highly progressive policy, characterized by a large number of tax brackets and progressive tax rates that go as far as taxing high incomes at high rates. This policy reflects the concern to take into account the economic means of taxpayers in the adaptation of rates and a logic of redistribution of wealth, reduction of inequalities and mobilization of own resources. For example, the North American income tax system of the 1960s had 24 tax brackets and a top marginal rate of 91%. However, under the impetus of Reagan and Thatcher in the United States and the United Kingdom, tax policies were globalized fairly quickly from the 1980s onwards. Tunisia has experienced the same fate, which is detrimental to tax justice, as shown by the evolution of income tax scales :

Figure 8
Evolution of the income tax scales

Brackets	Tax rate
0 to 900 dinars	0%
900 to 1300 dinars	5%
1300 to 1500 dinars	10%
1500 to 2000 dinars	15%
2000 to 2500 dinars	20%
2500 to 3000 dinars	25%
3000 to 3500 dinars	30%
3500 to 4000 dinars	36%
4000 to 5000 dinars	42%
5000 to 6000 dinars	48%
6000 to 8000 dinars	54%
8000 to 10000 dinars	56%
10000 to 14000 dinars	58%
14000 to 25000 dinars	60%
25000 to 40000 dinars	62%
40000 to 60000 dinars	64%
60000 to 80000 dinars	66%
beyond 80000 dinars	68%

Taxable income brackets in dinars	Tax rate
0 to 1500 dinars	0%
from 1500,001 to 5000 dinars	15%
from 5000,001 to 10000 dinars	20%
from 10000,001 to 20000 dinars	25%
from 20000,001 to 50000 dinars	30%
beyond 50000 dinars	30%

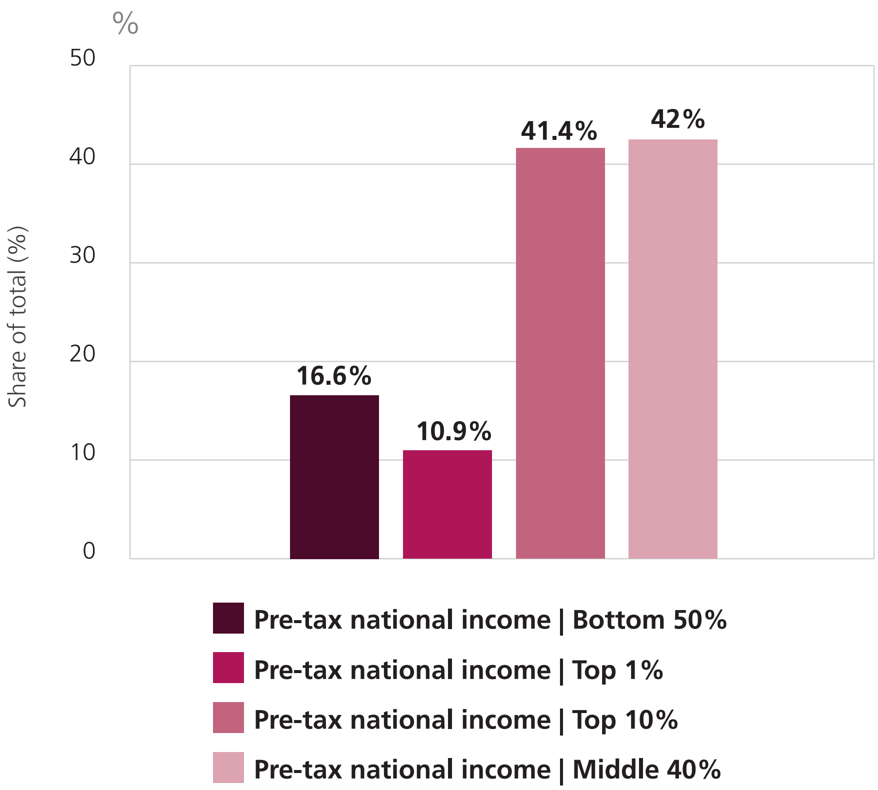
Taxable income brackets in dinars	Tax rate
0 to 5000 dinars	0%
from 5000,001 to 20000 dinars	26%
from 20000,001 to 30000 dinars	28%
from 30000,001 to 50000 dinars	32%
beyond 50000 dinars	35%

1 The rate that applies to the top income bracket.

The income tax scale that applied in the 1980s in Tunisia had 16 tax brackets and an upper marginal rate of 68% taxing the bracket above 80,000 dinars of annual income. In the light of the structural adjustment plan, this scale has given way to a completely different logic with a scale comprising only 6 brackets and a low marginal rate of 35% taxing an upper bracket which has itself been lowered to over 50,000 dinars. Still under the aegis of international financial institutions, Tunisia aggravated the same policies after the Tunisian revolution and through the 2017 finance law by lowering income tax by one bracket, increasing the tax effort on the middle class and keeping a policy favoring rich households. As a result, income inequality is increasing in Tunisia.

Figure 9

Income inequality, Tunisia, 2021



Author : World Inequality Database

Source : https://wid.world/fr/country/tunisie/

The wealthiest 1% of Tunisians have an income representing 10.9% of the total; the 10% have 42% of the total, i.e. more than the middle 40% whose income level corresponds to 41.4% of the total, while the share of the bottom 50% represents only 16.6% of the total income.

Such a policy of income taxation has inhibited an important lever in reducing inequality and has weakened Tunisia's own resource mobilization.

4

THE INSIGNIFICANT TAX CONTRIBUTION OF COMPANIES IN THE TAX EFFORT

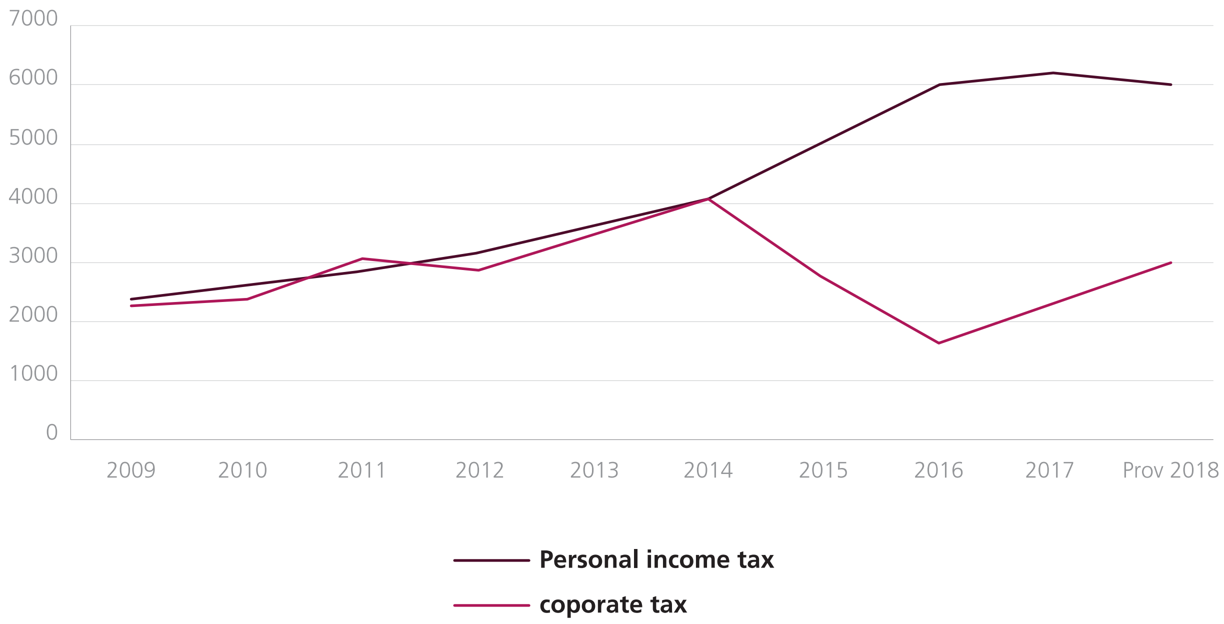
Corporate income tax contributes only 10% of total tax revenue. This minimal contribution to the national effort is due to three main reasons linked to Tunisian tax policy: the continuous decrease in the rate of this tax (1), an arsenal of tax benefits that weaken its base (2) and a massive tendency to fraud and tax evasion (3).

DRASTIC CUTS IN THE CORPORATE TAX RATE

Once again, the 1986 structural adjustment plan was a real turning point in the logic of corporate taxation that brought Tunisia into the era of competition and tax dumping under the impulse of international financial institutions. Before that, profits from commercial activities were taxed at 44%. The reforms associated with the structural adjustment plan began by lowering the corporate tax rate to 35% in 1990 with the enactment of the personal income tax and corporate tax code. A second corporate tax cut took place in 2007 and brought its rate to 30%. The same logic has continued and worsened after the Tunisian revolution with a further reduction through the 2014 finance law bringing its rate to 25% and implementing the recommendations of international financial institutions. The final blow was brought by the 2021 finance law which raised its rate to 15% only. All of these cuts are justified by the following narrative: Lowering the corporate tax rate would encourage private sector investment and reduce unemployment. Moreover, lowering the corporate tax rate would encourage tax evaders to declare their true profits or even to enter the informal economy. Thus, according to this narrative, these cuts would broaden the base of the corporate tax and result in increased revenues.

Figure 10

The evolution of the respective revenues of the personal income tax and the corporate tax



Author : Oxfam Tunisia

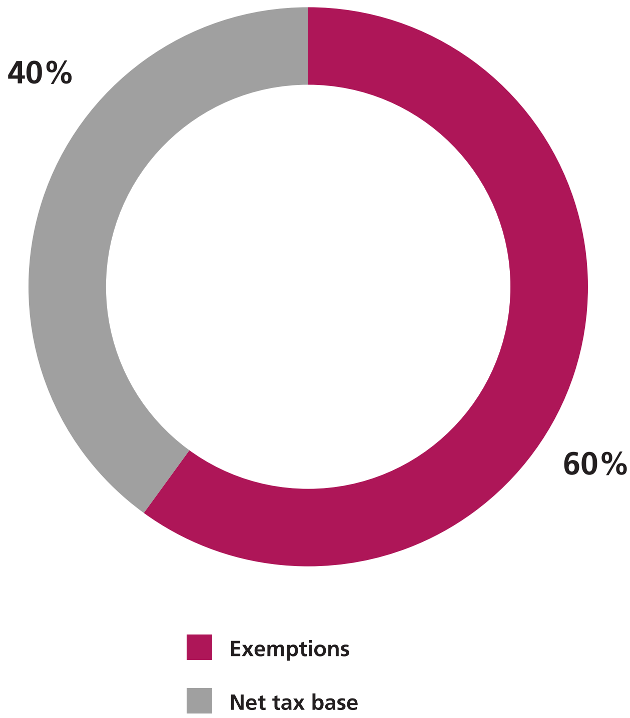
Source : Ministry of Finance, FTM 2018

The graph above shows that corporate income tax contributed an average of 20.5% of tax revenue until 2014, which is equivalent to income tax. With the tax cut implemented by the 2014 budget law, it is not the narrative described above that has been verified, but rather a historic drop in tax revenues in volume that is accompanied by a clear stall with income tax revenues, borne mainly by wage earners. The contribution portion of the corporate tax was therefore halved. As a result, these cuts weaken the mobilization of own resources, leading to greater dependence on debt, less investment in public services and an increase in the tax burden on households. Beyond its basic rate, the corporate tax base is undermined by an arsenal of tax shelters.

AN ARSENAL OF TAX BENEFITS THAT WEAKEN THE CORPORATE TAX BASE

Figure 11

The corporate tax base



Author: Al Bawsala,

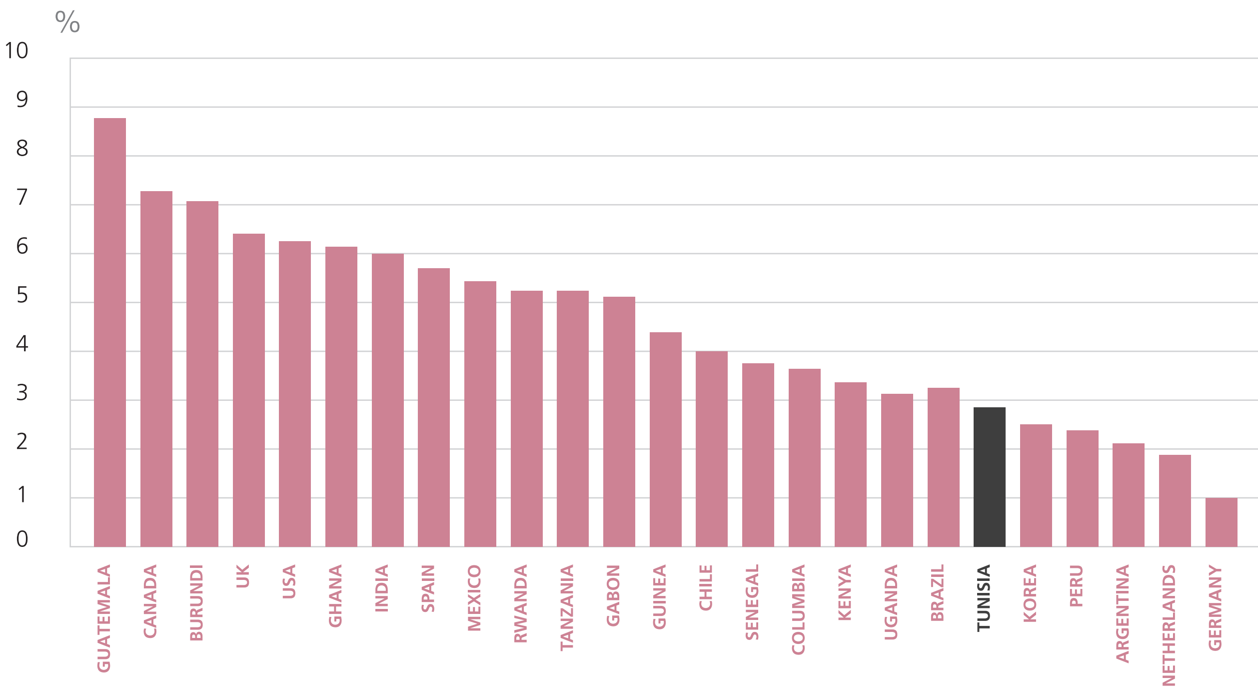
Source: Ministry of Finance.

In 2012, tax exemptions accounted for 60% of the corporate tax base according to the Ministry of Finance. The tax benefits result in a loss of revenue for the public finances and therefore constitute tax expenditure.

In this respect, the IMF classifies Tunisia among the most expensive countries in the world in relation to the wealth produced as shown in the following graph:

Figure 12

Cost of tax expenditures by country



Author : IMF, «Tunisia: Assessment of Public Financial Transparency», IMF Report No.: 16/339, November 2016

Source : World Bank, «Effectiveness of tax incentives in developing countries - Evidence and policy implications».

In 2017, the Assembly of People's Representatives passed a law overhauling the system of tax benefits, thus continuing a costly policy in terms of tax expenditures. A ministerial report annexed to the 2021 Finance Act lists 243 tax expenditures resulting in a staggering cost amounting to 4712 million dinars[2] or 150% of corporate tax revenues. More or less the same narrative that justifies corporate tax rate cuts is used to justify such spending. However, as a study by Al Bawsala[3] shows, the effectiveness of the benefits from the point of view of economic objectives is quite high. It is noted that according to a World Bank survey in Tunisia, 4 out of 5 foreign investments would have taken place in Tunisia, even in the absence of tax benefits. The latter is far from being a determining parameter in the investment attractiveness.

2 Ministerial Report on Tax Expenditures and Financial Incentives, page 42
https://urlz.fr/gluF

3 « Les avantages fiscaux, un fardeau pour les finances publiques », Al Bawsala,
https://budget.marsad.tn/ar/blog/reports/2020/tax-incentives

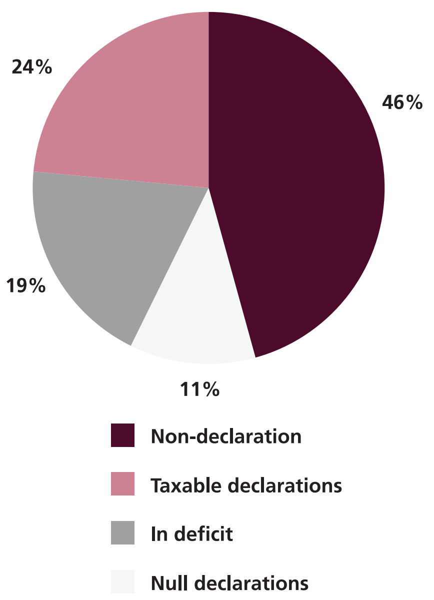
CORPORATE TAX EVASION AND FRAUD IN TUNISIA

With the exception of the system's locking mechanisms, such as the payment of income tax by means of withholding tax for employees or the payment of VAT by the consumer, tax evasion and fraud are rampant in Tunisia. The loss of revenue caused by the tax evasion and fraud is estimated by the Tunisian government at 25 billion dinars[4], or nearly half the state budget. Indicators show that companies make a significant contribution to tax evasion by taking advantage of both legislative and administrative loopholes.

ONLY ¼ OF BUSINESSES DECLARE A TAXABLE RETURN

Figure 13

Breakdown of declarations



Author : Association of Tunisian Economists (ASECTU),

Source: Ministry of Finance, «Ancrage de la justice fiscale et mobilisation des ressources», ASECTU.

Almost half of the companies (46%) are not declaring tax return and are therefore de facto in tax evasion. 19% declare that they are in deficit and 11% declare nothing. In fact, only 24% of companies declare their taxable income and that is, of course, not far from any suspicion of underreporting of profits actually recorded. These figures show a massive tax evasion by companies, partly explained by the blatant weaknesses of the administrative apparatus in charge of tax control and the fight against fraud, namely, the tax administration.

A GLARING LACK OF HUMAN AND MATERIAL RESOURCES AT THE FISC

A study by Al Bawsala on the Tunisian tax administration, based mainly on a diagnosis of the Tunisian authorities and international financial institutions, show the multiple failures of the FISC which leads to the failure of tax control.

On more than 700.000 taxpayers, this administration has only 1632 agents in charge of the tax control and only 450 of them are trained in the in-depth control. The glaring understaffing of the tax administration is coupled with a dire lack of material resources so that there are on average 3 computers for every 3 agents; 1 car for every 16 agents, an archaic and failing computer system. If we take as an example the regional office of Sfax, a large industrial city in Tunisia, we find that 42% of the agents in charge of tax control do not have computers at all.

The purely accounting approach of the international financial institutions with regard to public finances and the pressure it exerts on the Tunisian authorities for budgetary austerity does not spare the FISC, which nevertheless has an extremely important margin of mobilization of its own resources, as shown by all the indicators of tax fraud in this study. With this observation, Tunisia plays a spectator role in front of the extent of this phenomenon.

4 Oxfam, LA JUSTICE FISCALE EN TUNISIE, UN VACCIN CONTRE L'AUSTERITE, 17 Juin 2020, Page 4.

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

TUNISIA'S GOVERNMENT DELIBERATELY ENCOURAGES CORPORATE TAX EVASION THROUGH TRANSFER PRICING

Regarding the mechanisms of tax evasion, this study will focus on the issue of transfer pricing, as this mechanism poses important challenges in terms of tax optimization in the world but also in Tunisia where the Panama Papers[6] and more recently in the Pandora Papers have revealed a number of Tunisians suspected of having diverted their money to tax havens by manipulating transfer prices.

The question arises for the price of transactions (services or goods) between associated enterprises. These transactions may be overcharged, i.e., the price of a transaction is well above the market average. The affiliated company that purchases the goods or services in question benefits from a preferential tax regime (within the same country or abroad, in tax havens). This allows the selling company, and thus the economic group, to pay less tax. The challenge for the tax authorities is to control these transactions to ensure that the money does not evade the public finances. In this regard, and before the 2021 Finance Act, all companies with a turnover of 20 million dinars must declare to the tax authorities all transactions and for all affiliated companies. The 2021 Finance Act limited the application of this declaration to companies with an after-tax profit of 400,000 dinars, to transactions exceeding 100,000 dinars and only with companies located abroad. The 2021 Finance Act has already deprived the tax administration of the means to control these declarations, and has emptied the legislation governing transfer pricing rules of its content, which signals the support of tax evasion by large companies.

6 Inkyfada, survey « PANDORA PAPERS | QUI SONT LES 9 PERSONNALITÉS TUNISIENNES CONCERNÉES ? », https://inkyfada.com/fr/2021/10/28/personnalites-tunisiennes-pandora-papers/

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Thomas Picketty, Capital and ideology,

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Further information on the topic can be found here :
https://tunisia.fes.de

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