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A comparative analysis of taxation and revenue trends in the Middle East and North Africa (MENA) region

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Abstract

Purpose – The purpose of this paper is to gain insight into how well past reforms have performed against revenue, equity and efficiency benchmarks of tax policymaking, so that the direction of future reform of tax system might be determined. It also presents a comparative analysis of taxation and revenue trends in the Middle East and North Africa (MENA) region over the data set period 1990-2012.

Design/methodology/approach – By overviewing the development and relative significance of resource revenues, allocating non-resource taxes and examining the tax policies of constituent countries, this paper presents a comparative review of taxation and revenue trends in the MENA region.

Findings – Findings showed, on average, a slight decline in non-resource revenues against the significant rise in income from resources. The analysis of government revenues and current taxation structures provide insight into how prior reforms have performed against the standard measures of tax policy-making (i.e. revenue, equity and efficiency) and directions for change leading to the establishment of simple tax systems. The study observes regional differences, such as the higher tax and revenues of the Maghreb sub-region over the *Mashreq*, except for value-added tax, where low rates were associated with equal or greater revenue. Similarities were also found, including the partial compensation by income taxes (not indirect taxes) for revenue lost through trade liberalization. The challenges of tax reform are found to vary across countries and opportunities for improving equity and reducing the complexity of tax systems across the region are identified.

Research limitations/implications – Reforms in all tax systems could have major implications for the country, employment, earnings and tax revenues; but recommendations would require political value judgments and government decisions. The study suggests eliminating the current tax system, thereby replacing one of the more distortionary taxes in the current system with a neutral and efficient tax.

Originality/value – The paper signals the need, even of the oil-rich states of the Gulf Cooperation Council, for governments to build tax systems capable of capturing and spending revenues effectively into the future.

Keywords Tax policy, Tax revenues, Resource revenues, Tax reform, MENA region

Paper type General review

1. Introduction

Examinations of tax policy in the Middle East and North Africa (MENA) countries often center on revenues from natural resources and the need for governments to diversify revenue sources. The region is one of the world's most diverse (Dennis, 2006; Naceur and Ghazouani, 2007), and the marked differences between countries preclude general statements about how tax system reform might proceed. Systems of government in the

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region encompass nominally democratic, authoritarian and monarchic regimes; and ongoing socio-political turmoil has also influenced the conduct of economic policy and impeded the capacity of governments in a number of these countries to administer taxation in unstable state structures (Bhattacharya and Wolde, 2010). Apart from such prevailing factors as advancing globalization, the vicissitudes of commodity prices and political ferment, a potential threat to the authority of the state is posed by the existence of armed groups, in some cases, establishing their own tax systems (Mansour, 2015). Besides significant geographic differences that govern uneven distributions of natural resources across national boundaries, the administrative legacies of colonial rule and, more recently, the exposure of tax bases to globalization have variously influenced MENA economies (Dennis, 2006) and all have particular implications for the technical aspects of tax policymaking.

The purpose of this descriptive study, supported by quantitative analyzes, is to gain insight into how well past reforms have performed against revenue, equity and efficiency benchmarks of tax policymaking, so that the direction of future reform of tax system might be determined. Accordingly, this paper contributes to the existing literature by comprehensively reviewing resource and non-resource revenue and taxation trends in the MENA region over the 1990-2012 period, which reveals a mixed picture of the economic fortunes of its constituent countries. The rationale for selecting this period is the availability of data and the lack of transparency and deeper political issues in some countries. During this period, resource revenues, unsurprisingly, dominated the development of government total revenues, doubling between 1990 and 2008 and showing resilience after the initial negative impact of the global financial crisis of 2008. However, since 2012, due to the decline in oil and gas prices, the governments in the region introduced good efforts to combine alternative revenue sources through non-resource-based taxation. Through an analysis of countries grouped by common economic characteristics, the paper delineates certain changes in tax policy that may be appropriately weighted according to the need for revenue mobilization or equity and efficiency.

The countries included in this study are listed below along with the five group classification. Maghreb countries are separated into two groups, one belonging to the resource-rich group (Algeria and Libya) and the others to the non-resource group. Countries are selected based on the International Monetary Fund (IMF) Middle-East and Central Asia department coverage, which follows closely the geographical location and region (Table I).

The following sections of the paper will review the key literature of taxation to provide context for the analysis of tax systems in the MENA region in Section 2; establish the research methodology Section 3; Section 4 presents the analysis and results of general trends in the levels and composition of revenues and discuss their main components; identify the key tax policy issues and options available to the countries of the region; and in Section 5, prior to the conclusion, make recommendations for the future direction of tax policy.

Non-resource countries		Resource countries		
Maghreb	Mashreq	Maghreb	GCC	Other
Mauritania	Egypt	Algeria	Bahrain	Iran
Morocco	Lebanon	Libya	Kuwait	Iraq
Tunisia	Jordan		Oman	Yemen
	Syria		Qatar	
			Saudi Arabia	
			UAE	

Sources: IMF; World Bank; Mansour (2015)

Table I. MENA countries and group classification

2. Literature review

Taxation systems and their regulation in any country can be influenced by country-specific institutional, historical, economic and socio-cultural factors. An interdependent relationship of mutual affect exists between tax accounting, as a social practice and the factors that inhere in its operating environment. These factors may include general levels of national inflation and the administration of taxation. Hence, taxation can also influence accounting systems (King, 2009; Henrekson *et al.*, 2010). Taxation is vital as a source of government revenues (Daniel *et al.*, 2010), and the amount of tax collected will vary among nations, depending on economic, demographic, institutional and political structures. Differences among tax systems are, then, time and jurisdiction dependent. Currently, taxation is calculated both on physical assets such as property, events such as sales transactions and remuneration from employment. Taxation is regarded as an important role of government because it is a source of funding for projects that ultimately benefit their citizens, including education, health care and public transport infrastructures (Henrekson *et al.*, 2010). Without tax collection, governments are unable to finance essential services for their populations. Moreover, by having a regulatory role in the rate of the country's economic growth, taxation, through governments impost can serve to discourage individual activities held to be undesirable, such as gambling, alcohol consumption and tobacco smoking, and may also play a larger policy role in collective concerns such as reducing carbon emissions. While tax systems may share common aims, importantly, rates and types of tax imposts vary among countries.

Understanding the implications of taxation has become critical to corporate entities in their investment decision-making. Lower taxes help corporations to generate higher revenues or set lower prices (Daniel *et al.*, 2010; Henrekson *et al.*, 2010). Interest rates, taxes and inflation are often linked in any economy. A nation's inflationary status indicates the rate at which the cost of goods and services rises. A decrease in interest rates or tax will often encourage more people to borrow more money (King, 2009), resulting in consumers having an increased amount of money to spend, thus, causing growth in the economy and a rise in inflation (Bowler *et al.*, 2017). A rising or high inflation rate in a country will often force the government, in turn, to increase the level of tax on goods and services because of their greater price so as to stabilize consumption and aggregate expenditure (Azam *et al.*, 2010; Henrekson *et al.*, 2010).

Accounting systems in the countries of the MENA region vary according to accounting regulations in place, and to the degree that special rules, which usually extend from particular political and legal systems, are applied in practice. Taxation is an accounting regulation, and the tax system a way of compulsorily collecting money by a governmental levying authority (Varian, 1980). As organizations need to record revenues and expenses in their accounting systems, to claim deductions for tax purposes, the taxation can eventually influence accounting standards. While tax and financial accounting may, therefore, be similar (King, 2009) – the case in some countries such as Sweden and Germany – it is not so in others, such as The Netherlands, where taxation and financial accounting are separated. Taxable profits are usually financial accounting profits that have been adjusted for differences in taxation laws. Even in cases where tax and financial accounting are distinct, tax legislation may require the application of specific accounting principles such as the last-in-first-out inventory valuation method (Azam *et al.*, 2010; Henrekson *et al.*, 2010). Mirrlees and Adam (2010, p. 2) explain that:

> A good tax system should be structured to meet overall spending needs. Earmarking of revenues for particular purposes should be avoided. There is no reason for spending on particular items to be tied to receipts from particular taxes. And earmarking of revenues that do not impose a

> binding constraint on spending is empty rhetoric: 'an exercise in deceiving voters that their tax payments [control] government spending in a way which they simply will not misleading taxpayers rather than expanding democracy.

George (1929) beliefs that the tax revenue from the proposed tax system promised to be large and growing so large that all other taxes, including customs and tariff rates, could be entirely eliminated, along with their attendant collection costs, still leaving a surplus, which could be dedicated to public services and facilities, to paying down the public debt and to attaining natural monopolies to be run as public utilities. Of course, George's appraisal of potential revenue from the proposed single tax has hardly been achieved, while the growth of public expenditure at all levels has exceeded anything might be imagined. What remains significant in the single tax proposal is that it has important efficiency advantages. By concentrating taxes entirely on a base supplied perfectly in elastically to society it eliminates all costs of taxation (Whitaker, 1997).

3. Research methodology

This paper aims to explain taxation and revenue trends in the MENA region over the data set period 1990-2012. It analyzes the levels and structure of government revenues and assesses current taxation structures. The purpose of this descriptive study, supported by quantitative analyzes, is to gain insight into how well past reforms have performed against revenue, equity, and efficiency benchmarks of tax policymaking, so that the direction of future tax system reform might be determined. While making an overall assessment of the development and relative importance of resource revenues for the region, the paper focuses on resource and non-resource tax policy. To facilitate the analysis of how tax policy decisions have affected MENA countries, investigative data were drawn from a further range of sources encompassing documents and archival records, statistics, journal articles and previous research on the study's subject. The study also uses historical sources and website analysis methodologies for investigating historical taxation philosophies and practices and contemporary taxation management philosophies and related practices and discourse. These are examined through the lens of the neoclassical economic theory (Alsharari, 2017, 2018a, 2018b, 2019; Alsharari and AlShboul, 2019).

The main assumption of neoclassical economic theory is theorizing in terms of equilibrium and maximizing (rationality) economic benefits, and its assumptions belong to a closed economic universe. Hence, it examines the economic behavior of organizations at the macro level. According to this theory, the correct way to do business is to stick to the maximization model, complicating the environment/situation. Thus, it reflects exactly the absence of internal structure and complexity, and the consequent explanation of all behavior in terms of extrinsic changes, such as socio-economic factors. Methodological aspects of this theory have moved into mathematical techniques to refine economic models, but its core of microeconomics has stayed intact. Noteworthy, this theory has two faces: normative and positive. While positive models intend to describe and predict the general economic behavior of agents and systems; normative models attempt to prescribe the optimal behavior for them (Alsharari, 2013, 2019; Alsharari *et al.*, 2015).

The process of analysis began at the same time as the data collection, and prepared for analysis advanced categorization in a Stata (Software for Statistics and Data Science). Several sources were used to produce the data set. The starting point was the IMF database for the main aggregates: total taxes, trade taxes, indirect taxes and direct taxes. This was then completed and checked against IMF reports and statistical appendices produced by IMF surveillance and program missions, particularly to ensure that tariff revenues do not include domestic consumption taxes collected at the customs border (e.g. value-added tax

(VAT) and excises). To explain revenue developments in MENA countries, a data set has been drawn from the IMF reports and other documentation used by Fund staff surveillance and program activities. These developments can provide an understanding of how tax systems have scored on revenue and other important yardsticks, such as equity and efficiency, and provide a reference point relative to future objectives that policymakers may want to pursue.

The data source for the IMF reports is the Ministry of Finance of IMF member countries, usually provided by treasury departments, which consolidate data from customs and tax administrations and other government agencies, according to a standard budget terminology. The data set contains a number of other variables that are used in the trend analysis. These are the following: gross domestic product (GDP) at current prices; population; annual average inflation (as measured by the consumer price index); income classification. The source of all these variables is the IMF World Economic Outlook database, and in some cases the World Bank development indicators database. For any missing observations on this analysis, the data were constructed by assuming that each component is equal to the average of its share of any type of taxes for the previous and following observations. Not only the lack of data is a key reason for this but also deeper political issues may be at play as well. No data is available on expenditures as a direct reflection of tax revenues or expenditure side of taxation collections.

4. The discussion and results

4.1. Macro-Fiscal indicators in the Middle East and North Africa countries

Table II reveals quantitative differences among MENA countries, showing selected population and key macro-fiscal indicators for five sub-regional groupings of the Maghreb, the Mashreq, the Gulf Cooperation Council (GCC) and other Middle East countries (OME). These groups are geographically-based, which basis to a large extent also reflects comparative levels of income, given that GCC countries are all high-income resource producers. This division also allows general conclusions about tax policy choices that are available to governments to be drawn following analysis of revenue, population and taxation trends. Both the differences, and the changes occurring over the period of study between groups produce a strikingly mixed picture.

A most notable feature gleaned from Table II is the more than doubling of population that has occurred in the GCC group (Saudi Arabia, Kuwait, the United Arab Emirates, Qatar, Bahrain and Oman over the 1990-2012 period so that it now exceeds the aggregate population of the Maghreb's resource-rich countries (Algeria and Libya). Migration from other MENA countries and more recently, from Central Asia, is a significant source of this growth. This poses the tax policy dilemma, for both the receiving the labor-providing countries, but particularly for the GCC, of how to tax expatriate remittances to their home countries – while a tax on the mostly low-income foreign workers is discriminatory, taxing expatriates with higher skills and incomes may lead to a skills shortage.

In the OME group (Iraq, Iran and Yemen), revenues from oil, as per capita GDP, tripled between 1990-2012, from US$3,925 to US$11,704 and almost doubled government revenue per capita (Harrigan, 2014; Mansour, 2015). GDP per capita (at purchasing power parity) increased for all groups and particularly in non-resource countries. How this increased wealth is distributed also has implications for tax policymaking, as an instrument of equity. With the share of resource-GDP in total GDP in resource countries increasing from less than 30 per cent to nearly 45 per cent, governments in resource countries have, not unexpectedly, increased their reliance on resource revenues to finance their budgets. Also, of interest is the growth in real per capita revenues from US$832 to US$1,584 over the period examined

	Non-resource countries			Resource countries			
	Total	Maghreb	Mashreq	Total	Maghreb	GCC	OME
1990							
Population (m)	109.5	34.9	74.7	139.0	30.5	22.9	85.7
Share of oil GDP (%)	5.0	4.8	5.0	29.1	28.7	37.8	10.7
GDP per capita (US$, PPP)	3,518.3	2,542.3	4,494.2	22,016.5	6,550.5	34,928.5	3,925.4
Government revenues							
Per cent of GDP	19.2	25.0	17.2	29.0	30.3	38.2	8.0
Per capita (US$)	35.6	21.8	42.0	832.5	756.5	3,266.9	210.1
Government tax revenues	15.0	21.2	12.8	4.6	10.7	2.8	2.7
2012							
Population (m)	161.0	47.1	113.9	224.9	44.6	47.4	132.9
Share of oil GDP (%)	9.7	2.0	12.9	44.7	46.2	49.6	30.8
GDP per capita (US$, PPP)	9,974.1	6,837.0	13,111.3	43,996.1	18,218.4	68,734.8	11,703.8
Government revenues							
Per cent of GDP	21.7	27.0	19.4	41.7	49.4	43.9	32.4
Per capita (1990 US$)	28.1	28.8	27.8	1,584.0	996.6	5,370.7	429.5
Government tax revenues	17.1	23.6	14.3	4.0	9.3	2.9	4.5
Change 2012-1990 (%)							
Population	47.0	35.1	52.5	61.8	46.4	107.5	55.1
Share of oil GDP	94.6	−57.9	158.0	53.6	61.2	31.2	187.0
GDP per capita (US$, PPP)	183.5	168.9	191.7	99.8	178.1	96.8	198.2
Government revenues							
Per cent of GDP	12.8	7.7	13.1	44.0	63.1	14.9	305.7
Per capita	−21.1	32.0	−33.9	90.3	31.7	64.4	104.4
Government tax revenues	14.5	11.6	12.2	−13.4	−13.0	0.5	65.4

Sources: IMF reports and documentation; World Bank; Mansour (2015)

Table II. Macro-Fiscal indicators, 1990-2012

(Harrigan, 2014; Mansour, 2015). In the non-resource country groups, government revenues increased only slightly from 19.2 to 21.7 per cent of GDP. In real terms, per capita revenues declined in the Mashreq group by about one-third, and grew in the Maghreb group by one-third. Finally, tax revenues remained very low and stagnant in the resource group, and increased slightly in the non-resource group (Harrigan, 2014; Mansour, 2015).

4.2. Trends analysis in revenue levels and structure

In this section, the study reviews revenue developments in MENA countries in detail, based on a data set created specifically for this paper, which draws from IMF staff reports and other documentation used by IMF staff surveillance and program activities. These trends help in forming an understanding of how tax systems have performed by revenue and other important measures such as equity and efficiency, and provide a reference point for future objectives and options pursuable in the tax policymaking process.

At the regional level, in general, oil and gas has, as would be expected, dominated the development of government total revenues (resource revenues plus non-resource revenues, the latter equaling tax and non-tax revenues) since 1990 (Figure 1), which at 0.99 is quite a remarkable correlation between total and resource revenues. Resource revenues, already high at the beginning of the sample period, were slightly below 15 per cent of GDP and rose relatively quickly through the 2000s to reach 31 per cent of GDP in 2008. Although the 2008

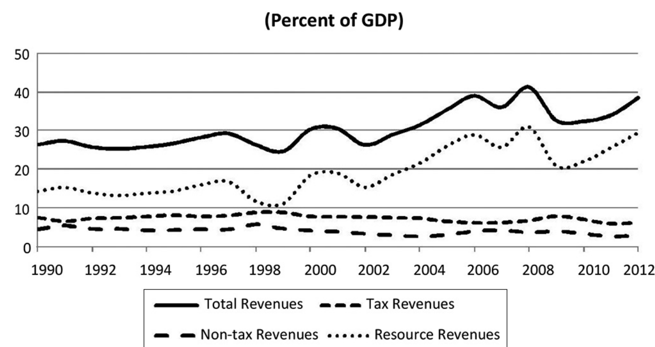


Figure 1.
Trends analysis in government revenues, 1990-2012

Sources: IMF reports and documentation; World Bank; Mansour (2015)

global financial crisis had a substantial impact on revenues, of about 20 per cent of GDP, by 2012 they were back up to 29.5 per cent. Beyond the study period, since June 2014, the level of decline in oil and gas prices and gradual fall in demand, together with increasing extraction of shale gas reserves elsewhere in the world, will likely have an adverse impact on resource revenues in MENA in the next ten to 15 years. The possible long-term consequences for fiscal policy in general and tax policy in particular, some of the implications have already manifested; some countries in the region have begun scaling back their costly energy subsidies (Berument *et al.*, 2010; Difiglio, 2014; Wang *et al.*, 2014).

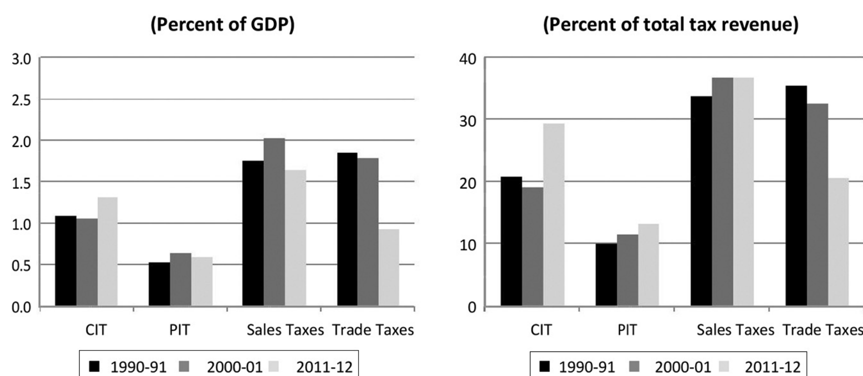
Interestingly, tax revenues have remained relatively stable over the sample period within a narrow range of 6-9 per cent of GDP and slightly lower at the end of the period, albeit with fluctuations across countries. Another important observation is the relative significance of non-tax (non-resource) revenues. Non-resource revenues comprise multifarious fees and stamp duties, most in the form of transaction taxes on specific activities such as registration of property and motor vehicles and stamp duties on financial transactions, etc. The use of such fees is prevalent not only in the GCC, where taxation exists only in a rudimentary form but also in other MENA countries, which impose standard taxes on income and consumption (Harrigan, 2014; Mansour, 2015).

The impact on revenues of recent political instability in the region, the incipient Arab Spring beginning in Tunisia in late 2010, appears to have been, in general, negligible, although by country, there have been more dramatic results. In Syria, 2010 is the last year for which data is available, and the civil war there continues to devastate revenues and public finances; in Libya, historically weak non-resource revenues have fallen further, from about 4 per cent of GDP before 2010, to less than 1.5 per cent in 2012 (Ansani and Daniele, 2012; Malik and Awadallah, 2013; Buck, 2016). Moreover, these developments in government revenues in the MENA region are in contrast, to the common trend in the rest of the world. The IMF (2011), for example, reports averages in high-income countries that are well above but less unstable than those for MENA countries for most of the sample period. Elsewhere in the world, other resource-rich countries, particularly those in upper middle and high-income strata, generally have well-developed non-resource taxes, which contributions not only increase government revenues but also render them less volatile (Berument *et al.*, 2010; Ansani and Daniele, 2012; Malik and Awadallah, 2013; Buck, 2016).

Overall, for the region, the minor decline in the tax ratio between the early 1990s and 2011-2012 is roughly equal to an uncompensated loss in trade taxes of about one percentage point of GDP (Figure 2). While sales and excise taxes have remained relatively stable, revenues from the corporate income tax (CIT) increased, but by less than the decline in trade taxes (Harrigan, 2014; Mansour, 2015).

It is important to examine country groups in the region not only by their wealth in natural resources but also by their geographic and trade relations. Figure 3 shows development in total and tax revenues for two non-resource groups (non-resource Maghreb and Mashreq) and three resource groups (resource Maghreb, GCC and OME). The levels and trajectories of total revenues for non-resource Maghreb and Mashreq have been broadly similar, but have diverged in recent years; in the Mashreq, revenues declined sharply across all constituent countries (Egypt, Jordan, Lebanon and presumably, Syria), by an average of about five percentage points of GDP (Harrigan, 2014; Mansour, 2015; Almasarwah *et al.*, 2018). More significant, however, are the differences in tax revenues between these two groups: Maghreb countries tended to raise more than Mashreq countries – about 6.4 per cent points of GDP on average; and, moreover, Mashreq tax revenues were stagnant while those in the Maghreb increased between 2005 and 2012. By international norms, taxation levels in the Mashreq are comparable to those in low- and lower-middle income countries and in the Maghreb, to those in upper-middle-income countries (Abumangosha, 2014; Harrigan, 2014; Mansour, 2015). The Mashreq result is driven by Egypt, a lower-middle-income country; in the latter group, only Tunisia is an upper-middle income country, whereas Morocco and Mauritania are both lower-middle income. The tax ratio in the Maghreb seems to be higher than the relationship between tax effort and income levels suggested by standard econometric analysis (Abumangosha, 2014; Harrigan, 2014; Mansour, 2015).

For resource country groups (resource Maghreb, GCC and OME), natural resources have been the main source of government revenues since 2000 and revenue levels in the Maghreb and GCC are significantly higher than in the OME group. Developments over the period are broadly similar in all groups: stagnant tax revenues contributed little to revenue, with the exception of Algeria, in the Maghreb, which has a well-developed tax system that yields tax levels similar to those in low-income countries. On average, developments in tax revenues in resource countries are consistent with econometric findings suggesting that resource revenues dominate partially non-resource revenues – about 20 cents on average for each dollar increase in resource revenue. The exception is the OME group, where the mean tax



Sources: IMF reports and documentation; World Bank; Mansour (2015)

Figure 2. Changes in the structure of tax revenues, 1990-2012

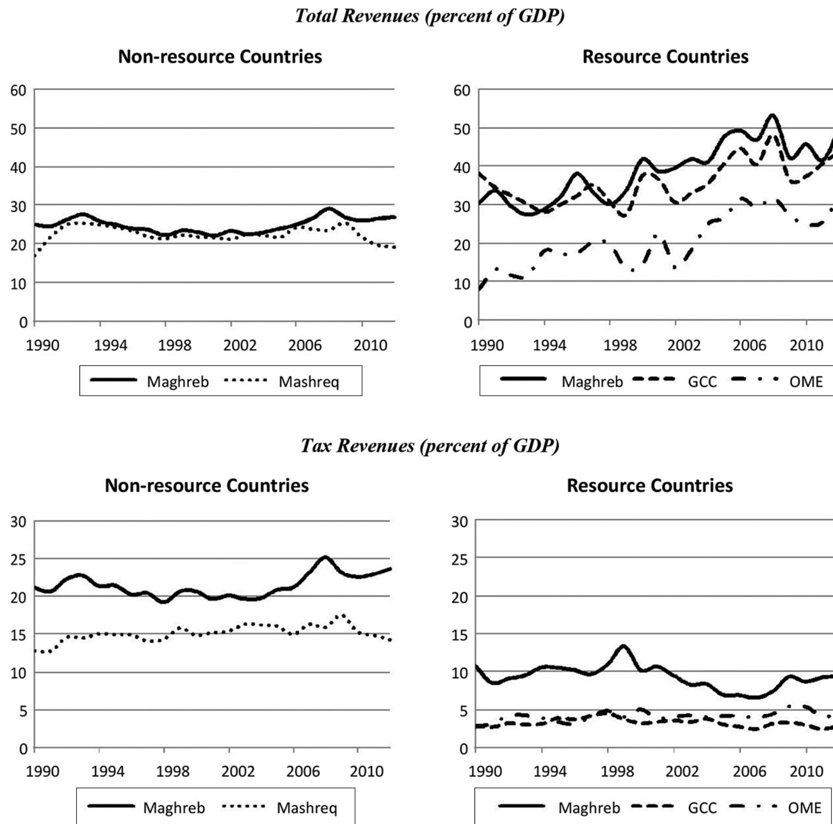


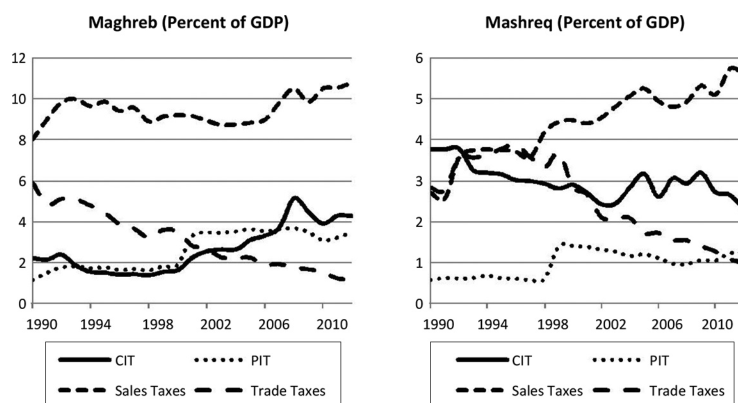
Figure 3.
Trends analysis in total and tax revenues by group

Sources: IMF reports and documentation; World Bank; Mansour (2015)

effort increased from 2.7 to 4.5 per cent of GDP over the period, mainly reflecting an increase in non-resource revenue in Iran (Crivelli and Gupta, 2014).

Differences among the sub-regional groups become more marked when the development of the key components of tax revenues are taken into account. Figure 4 shows such a development for the two non-resource groups (Maghreb and Mashreq). In the first, sales taxes are seen to have deteriorated over the period, and the severe loss of trade-based taxes in the 1990s to have been balanced by an increase in income taxes in the 2000s. Thus, the U-shaped tax revenue ratio, which suggests that Maghreb countries had no timely compensatory plan for lost trade taxes revenue. With trade taxes currently at about 1 per cent of GDP, and trade almost completely liberalized with a reduction in import tariffs or through bilateral trade agreements, the pressure to mobilize revenue falls directly on domestic taxes (Crivelli and Gupta, 2014; Mansour, 2015).

In the second group, a very different trajectory is apparent. The loss of trade taxes was largely balanced by domestic sales taxes. Personal income tax (PIT) revenues remained relatively constant while CIT revenue declined by about 1.5 per cent points of GDP. As in



Sources: IMF reports and documentation; World Bank; Mansour (2015)

Figure 4. Trends analysis in the structure of tax revenues in non-resource groups

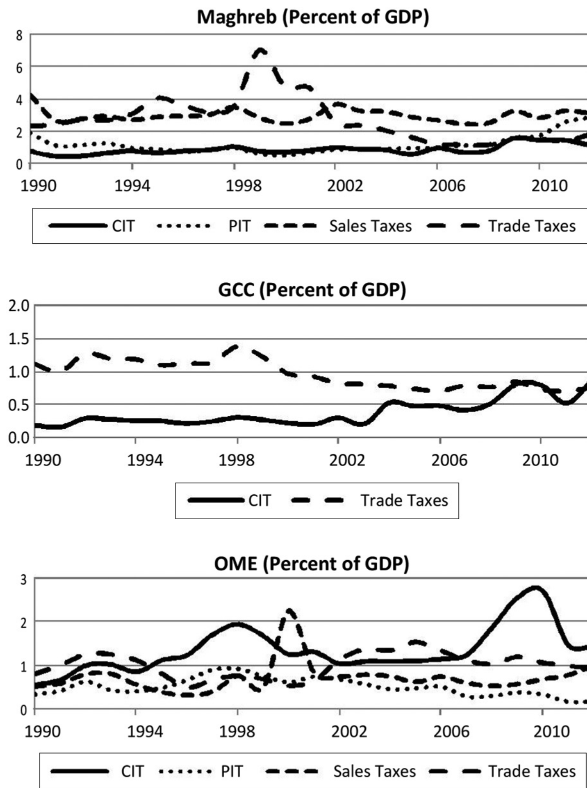
the Maghreb, trade taxes no longer constitute a significant source of revenue (Crivelli and Gupta, 2014; Mansour, 2015).

These differences in tax revenue developments, notwithstanding some convergence that is observable in the composition of tax revenues over the period, suggest different policy options and different starting points for the two groups. Developments in the form of tax revenues in the resource groups (resource Maghreb, GCC and OME), while not as important, are not negligible (Figure 5). Apart from in the GCC countries, the development of tax revenue has been inconsistent, which, perhaps, reflects the volatile influence of the resource sector on non-resource revenues, with the exception of personal income tax, which although stable is insignificant, as it derives primarily from public sector wage withholding (Crivelli and Gupta, 2014; Mansour, 2015).

4.3. Tax policy issues in the Middle East and North Africa region

This section reviews the main features of tax systems in the MENA region in the context of current revenue conditions, discussing tariff and trade tax policies and taxes on consumption. Tariffs are a key aspect of trade policy, which is distinct from domestic tax policy in its role of protecting the national industry by creating a wedge between the prices of imported and domestically-produced goods and services. While a comprehensive analysis of trade policy issues falls outside the scope of this paper, there are several interactions between tariff and domestic tax policies that should be considered in the evaluation and development of tax policy choices (Mansour, 2015; Alsharari and Abougamos, 2017).

First, tariffs generate sizeable revenues essential to state budgets; when governments liberalize trade, either unilaterally or by entering into free trade agreements (FTAs), compensating for subsequent revenue losses can be problematic. Second, even when tariffs do not raise significant revenues, such as when they are prohibitively high or used jointly with quotas, reducing tariffs could have major consequences for the composition of the tax base of the domestic tax system. Third, the protection provided by tariffs to domestic production sectors may generate returns on investment above normal rates of return (i.e. those that would be required by investors in reasonably competitive markets), and governments may want to tax such surpluses (i.e. economic rent) above the standard rates. Fourth, investment tax incentives may be ineffective when tariff rates are high on imported

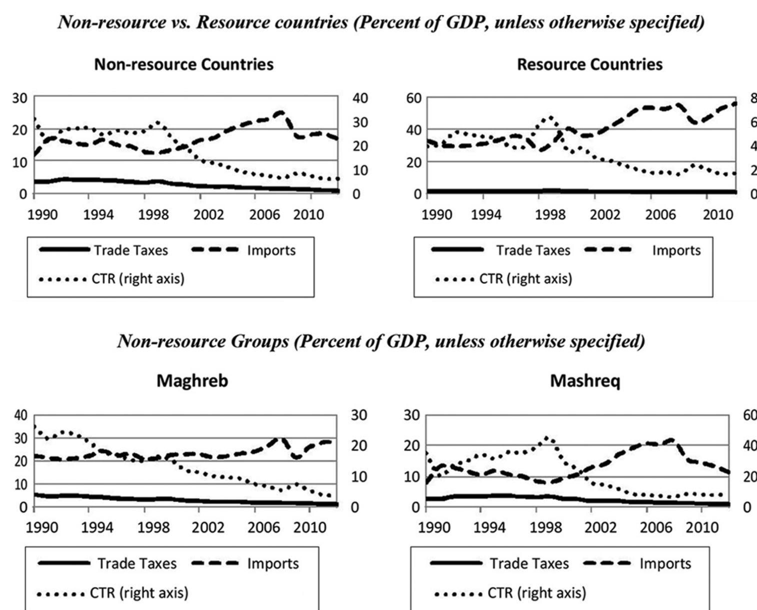


Sources: IMF reports and documentation; World Bank; Mansour (2015)

Figure 5.
Trends analysis in the structure of tax revenues in resource groups

intermediate and capital inputs; for example, a corporate tax holiday may be of little use to a firm facing a high tariff rate on imported capital that has no domestic substitutes. In summary, domestic tax policy needs to respond to trade liberalization for revenue, efficiency and equity purposes and tariff and tax policy need to be carefully coordinated when sectoral strategies are formulated (Mansour, 2015; Alsharari and Abougamos, 2017).

From a revenue perspective, tariff policy in MENA countries has evolved toward more liberalization, and less reliance on tariffs as a revenue source. Trade taxes today average about 1 per cent of GDP, and rarely exceed 2 per cent, in both resource and non-resource MENA. Their contribution to total tax revenues declined from about 26 per cent in the early 1990s to 15 per cent in 2012. Figure 6 provides a more detailed picture, showing, in addition to trade taxes, the collected tariff rate (CTR) and imports (as respective percentages of GDP) and emphasizing, as previously, the variations across the region (Mansour, 2015; Alsharari and Abougamos, 2017). In resource countries, both trade taxes and the CTR have declined from already low levels in the early 1990s, while the tax base (imports) expanded significantly, from 33 to over 55 per cent of GDP. The response of the base to the decline in the CTR could not have been vital, given the persistently low level of the CTR in the early 1990s – even though Figure 6 suggests a strong relationship. This progression begs the



Sources: IMF reports and other documentation; World Bank; Mansour (2015)

Figure 6. Trade taxes: tax base and collected tariff rates

question of why trade taxes have not increased or at stabilized, in resource countries. The answer, in part, is found in the much lower current tariff rates than those of the 1990s, especially in GCC countries, where a single common external tariff of 5 per cent applies to most imports; another part is the use of exemptions and other types of tariff preferences (Mansour, 2015; Alsharari and Abougamos, 2017).

In the non-resource countries (Maghreb and Mashreq groups shown separately), clear and significant declines in both trade taxes and the CTR can be observed, however, that they take different paths. There is little evidence of any significant expansion of the tax base, unlike in the resource countries and the increase in the early 2000s has receded somewhat in later years, particularly in the Mashreq (Crivelli and Gupta, 2014). It is tempting to conclude that the loss of trade taxes and the corresponding decline in the CTR are primarily due to trade liberalization, but the issue is more complex. Table III shows statutory tariff rates [bound and applied most-favored-nation (MFN)], maximum rates and the number of distinct rates used in MENA groups (data for some countries were not available from the World Trade Organization), along with the loss of trade taxes over the study period. Average bound rates are very high in most countries and average MFN rates are not unusually low, which is particularly so in non-resource countries. Maximum rates are also very high and more importantly, perhaps, the number of tariff rates is elevated in all countries, except in Kuwait. All of these observations suggest that the low revenue takes from tariffs may be explained, at least in part, by the use of preferential concessions such as exemptions and reduced rates (Mansour, 2015; Alsharari and Abougamos, 2017).

This complex tariff situation may have an explanatory role in the wider issue of why trade in the MENA is well below its potential. Behar and Freund (2011) find that MENA

Table III. External tariffs: Bound, maximum and MFN rates

	WTO member since	Simple average tariff rate Bound (%)	Simple average tariff rate MFN (%)	Max tariff rate (%)	Number of distinct tariff rates Bound	Number of distinct tariff rates MFN	Loss of trade taxes 1/ (% of GDP)	Collected tariff rate (per cent) 1990-1991	Collected tariff rate (per cent) 2011-2012
Resource countries									
Maghreb									
Algeria	No	n.a.	n.a.	n.a.	n.a.	n.a.	−0.2	8.6	5.3
Libya	No	n.a.	n.a.	n.a.	n.a.	n.a.	−2.3	7.6	0.8
GCC									
Kuwait	1995	97.8	4.7	100	2	4	−0.1	3.1	0.9
Oman	2000	13.8	4.7	200	15	9	0.0	1.8	1.2
Qatar	1996	16	4.7	200	16	8	0.0	1.3	0.8
Saudi Arabia	2005	11.2	4.8	536	108	12	−0.7	4.0	1.4
UAE	1996	14.4	4.7	200	11	9	0.7	0.3	0.9
OME									
Iran	No	n.a.	n.a.	n.a.	n.a.	n.a.	0.8	2.9	5.1
Iraq	No	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
Yemen	2014	21.1	7.5	100	115	4	−2.0	41.5	4.1
Non-resource countries									
Maghreb									
Mauritania	1995	19.8	n.a.	75	13	n.a.	−4.1	25.0	3.4
Morocco	1995	41.3	12.9	289	48	38	−3.5	25.2	5.6
Tunisia	1995	57.9	15.5	200	42	8	−5.7	22.8	2.5
Mashreq									
Egypt	1995	36.9	16.8	>1,000	41	29	−2.0	48.7	9.3
Jordan	2000	16.2	9.5	200	26	115	−3.1	17.1	5.1
Lebanon	No	n.a.	n.a.	n.a.	n.a.	n.a.	−1.6	28.2	9.4
Syria	No	n.a.	16.5	150	n.a.	16	−0.1	5.2	6.5

Sources: IMF reports and documentation; World Bank; Mansour (2015)

exports have increased since the early 1990s, but the region's exports overall are two-thirds below its potential – as estimated according to fundamentals – and growth is even slower in non-resource countries. These authors also find that intra-MENA trade is well below its potential, suggesting that regional trade agreements have not worked and expected. Wolde and Bhattacharya (2010) explore the empirical determinants of constraints to trade in MENA and find high transportation costs and inefficient and slow customs clearance procedures to be significant factors.

From a revenue standpoint, this analysis suggests that MENA countries can maintain and perhaps, even increase their trade tax revenues, by flattening the tariff structure, reducing the number of rates and reducing maximum rates. This would reduce the need to provide tariff exemptions or reductions and may improve the overall progressivity of the tax system – as imported goods tend to be consumed disproportionately by wealthy individuals. Details matter, especially in this area, where careful attention needs to be paid to such factors in the design of such reforms, including existing and contemplated FTAs and the interaction of tariffs with domestic taxes, in particular, consumption taxes (Mansour, 2015; Alsharari and Abougamos, 2017).

Taxation of consumption in the MENA region takes one of three forms: general sales taxes; excise taxes; and other specific transaction taxes, which could contain elements of fee-for-service, raises different but related issues to the first two tax types. General sales taxes in MENA are primarily of the destination-based VAT type and derive from:

- cascading sales taxes that applied to goods prior to the 1990s, the case in Maghreb countries and Egypt, which transformed old sales taxes into a general sales tax, which functions as a VAT at the standard rate, in most cases, on goods and a series of excises on business-to-business services – achieved by modifying laws to expand the tax base to services and reduce cascading by enhancing refunds of taxes on intermediates and capital goods; and
- new VATs designed without any historical heritage – the case in Lebanon, Jordan and the OME group. Legacy issues are important in their implications for some key VAT design issues, including the nomination of level and number of rates, the registration threshold, exemptions and possibly other decisions and they have similarly affected the dynamics of national policy debates on VAT reforms (Helmy, 2013; Mansour, 2015; Alsharari and Abougamos, 2017).

Table IV shows the wide variation among MENA sub-regions in the application of VAT rates. The Mashreq and OME countries tend to have lower rates than those of the Maghreb and low-rate countries also happen to be those whose VAT policies have no historical legacy but are new sources of finance (e.g. Iran) or replace revenue lost through trade liberalization (e.g. Lebanon). Standard rates have increased in all countries, as has the number of rates (except in Algeria). The level and number of VAT rates in the region reflect the spectrum of international practice, except in relation to standard rates in the European Union, which are typically higher than the highest MENA rate of 20 per cent (in Morocco); and the European Union countries also tend to use multiple rates more than other jurisdictions (European Commission, 2014).

Registration thresholds are low in some countries (e.g. Algeria, Egypt, Morocco and Tunisia) by international norms and their definition, i.e. by turnover, is problematic. They vary by activity and the legal form of the business, and these multiple thresholds are frequently justified on the basis that some types of business have higher added value (e.g. services) than others, should therefore, be subject to VAT at lower turnover levels. There are two major flaws in this argument: first, the use of a registration threshold responds to two realities, with which the share of value add has little in common – the capacity and resources of the tax administration, which is often limited and the ability of taxpayers, who may be constrained by lack of familiarity with and availability of accounting standards, to meet minimum filing requirements. Second, multiple thresholds are significantly more complex to administer and create tax planning opportunities that taxpayers can exploit and unscrupulous tax inspectors can use for rent-seeking. The contribution of MENA VATs to tax revenues ranges from 30 to 55 per cent (except in Iran and Egypt, where it is much lower). Although this may seem significant, C-efficiency estimates suggest that the yield can be improved through base broadening, especially in Egypt, Algeria, Tunisia and Iran. In addition to low rates, these countries have broad exemptions on final consumption items (Helmy, 2013; Mansour, 2015; Alsharari and Abougamos, 2017).

On the foregoing basis, the cost of VAT tax expenditures (exemptions and lower rates) provided under current VAT laws in the region is possibly sizeable and should concern policymakers for two reasons. First, the equity implications of such policies are far from trivial, as targeting using an indirect tax, especially one of general application such as the VAT, is too costly – poor consumers may benefit, but much less so than the well-off – and

Table IV.
VATes: rates and revenue contributions

	VAT rates				VAT threshold		VAT revenues		
	Standard rate (%)		Other rates (%)		(Turnover in US$)	% of GDP	% of total taxes	% of GDP per point of rate	C-eff. 8/
	At intro	2013	At intro	2013				Mean 2011-2012	
Resource countries									
Maghreb									
Algeria 1/	13.0	17.0	7; 21; 40	7	1,289	3.7	32.0	0.22	0.41
OME									
Iran 2/	3.6	6.0		12; 20	175,778	0.5	9.5	0.08	n.a.
Yemen 3/	5.0	5.0		2; 3; 10	233,316	2.3	34.2	0.46	n.a.
Non-resource countries									
Maghreb									
Mauritania	14.0	14.0		18	101,184	7.7	44.2	0.55	0.58
Morocco 4/	20.0	20.0	7; 14	7; 10; 14	57,948	9.1	35.9	0.45	0.58
Tunisia 5/	17.0	18.0	6; 29	6; 12	32,012	6.0	31.2	0.34	0.40
Mashreq									
Egypt 6/	10.0	10.0	5; 25	5; 15; 25	8,989	3.0	21.5	0.30	0.33
Jordan 7/	13.0	16.0		4; 8	211,566	10.1	55.9	0.63	0.63
Lebanon	10.0	10.0			99,502	5.2	31.0	0.52	0.55

Sources: IMF reports and documentation; World Bank; Mansour (2015)

raises complex administrative problems, which are amplified by opportunities for tax avoidance (e.g. classification of imports). Second, and particularly for those countries in need of revenue, increasing revenues from other tax sources could be more problematic and distortionary (in its negative impact on growth and employment) than scaling back VAT exemptions and low rates (Helmy, 2013; Mansour, 2015; Alsharari and Abougamos, 2017).

Studies on the distribution of VAT tax expenditures in developed countries are many, but scarce for the rest of the world. Studies from the developed world find that VAT tax payments are often poorly targeted and costly. For example, a study of 15 Organization for Economic Cooperation and Development (OECD) (2014) countries finds that this is the case for low VAT rates on food. Interestingly, the same study finds that low VAT rates applied to social or cultural objectives (e.g. restaurants and hotel accommodation) to be regressive because low-income earners are disproportionately affected. Bird and Gendron (2007) reviewed the available evidence for developing countries and reported impressive results: depending on country circumstances, VATs can be slightly regressive or progressive; zero-rating can make VATs more conservative (consistent with the findings of the OECD study cited above); and replacing excises and import duties with a general consumption tax such as a VAT may actually improve tax progressivity in most low-income countries. While these results are country-specific and depend on consumption profiles and VAT design, they are nevertheless of some significance for MENA countries in their thinking about cost and equity implications of VAT policy reform (Helmy, 2013; Maddison, 2013; Mansour, 2015; Alsharari and Abougamos, 2017). Table V shows the distributional impact of low VAT rates in Morocco and low rates and exemptions in Tunisia, using the same methodology as OECD (2014). The results are consistent with expectations and broadly similar to those obtained for OECD countries. The top quintile of distributed income reaps a much higher share (about 40 per cent) of VAT tax expenditures, while the first quintile receives less than 10 per cent and the poor in Morocco even less (Helmy, 2013; Maddison, 2013; Mansour, 2015; Alsharari and Abougamos, 2017).

These results suggest that opportunity exists for more effective policy design whereby revenue from streamlining VAT tax payments can be used to increase social security for the poor, and perhaps, even increase revenue to the government. Social safety nets (SSNs), which are conditional cash transfers, are examples of how subsidies can more effectively benefit the poorest sectors. SSNs in the MENA countries are, however, poorly designed and underfinanced (Morgandi *et al.*, 2012), and can suffer from the same political economy issues that perpetuate the use of poorly targeted VAT preferences. Although recent progress has been made in this area, more work is needed, specifically in the analysis of the link between tax revenue and social equity. The expansion of support for the economically disadvantaged through SSNs can, moreover, also be a powerful tool to improve acceptance of tax reform. In the short term, however, that the tax systems of MENA countries are unlikely to produce adequate responses to the scale of need, even poorly-targeted subsidies may be more effective than VAT expenditures. Other options involving a more gradual approach to reforming VATs can include limiting the scope of VAT exemptions and low rates to a

Table V. Distributional impact of VAT tax expenditures in Morocco and Tunisia

	Poor	Q1	Q2	Q3	Q4	Q5	Total
Morocco	5.2	9.3	12.0	15.0	19.7	38.8	100
Tunisia	n/a	7.7	12.7	17.0	23.2	39.2	100

Sources: IMF reports and documentation; World Bank; Mansour (2015)

restricted list of items, which largely comprise the consumption basket of the poor instead of their application to whole categories. However, even this apparently simple approach has proven politically difficult in MENA countries and elsewhere (Jones *et al.*, 2013).

4.4. Expenditure side of taxation

The economic analysis of taxation and public expenditures usually focuses explicitly on the structure of taxes and expenditures, as different taxes and public expenditures tend to have a different influence on various economic and administrative outcomes, such as redistribution and tax compliance (Profeta *et al.*, 2013). The taxation literature have emphasized that some fundamental economic variables, mainly GDP, may play a crucial role in determining the level of taxation and public expenditure and their composition (Martinez-Vazquez *et al.*, 2012; Profeta *et al.*, 2013). Profeta *et al.* (2013) argue that the lack of availability of "tax handles" might limit revenue collection at low levels of income. Moreover, economic development is associated with an increased demand for public expenditure. Not only economic development widens the tax base but also improves administrative capacity to levy and collect taxes. Additional socio-economic variables that may have an impact on the level and the structure of both taxation and public expenditures are: the level of government debt, the share of agriculture on value-added, trade openness and the percentage of elderly people on the total population (Alsharari, 2016a, 2016b, 2017; Profeta *et al.*, 2013).

The potentially redistributive expenditures have increased steadily since the early 1980s reaching a peak in the early 2000s and then declining slightly in the most recent years. Public expenditures on health also have steadily increased since the 1980s reaching a plateau and then declining slightly in more recent years (Martinez-Vazquez *et al.*, 2012). On the other hand, public expenditures on education have decreased significantly since the end of the 1980s. Depending on the composition and access of lower income groups to education and health services, they can significantly affect inequality in the distribution of income. As expenditures on public health increased during the period, this should have contributed to decreasing inequality. Then because public education expenditures decreased, this should have contributed to increasing income inequality. However, the effect of both health and education expenditures on income distribution depends intrinsically on the intra-sectoral composition of spending in both sectors and the degree of access of the poorest segments of the population to the public services provided (Martinez-Vazquez *et al.*, 2012). It is expected that primary education benefits the poor provided they can access it and its quality is good, while tertiary education may benefit more the richer segments of society. Similarly accessible primary medical care is expected to benefit the poor relatively more while advance medical care may often be affordable only to richer groups. The fourth category of public expenditures on housing has steadily declined since the mid-1980s with a potentially negative effect on income distribution (Martinez-Vazquez *et al.*, 2012; Alsharari, 2016a, 2016b, 2017).

Like most developing countries, and the number of developed, MENA governments do not estimate and publish regularly the cost of tax expenditures – investment incentives or others. Morocco is the only exception; it has published its tax expenditures since 2005 (with estimates for 2003 onward), with a presentation by major tax type (i.e. CIT, VAT, PIT, excise taxes, registration fees, etc.). For CIT investment incentives, the cost (in terms of forgone revenues) has increased slightly over time, from 0.7 per cent of GDP in 2003 to 0.8 per cent in 2013, with a peak of 1.2 per cent in 2012 (Mansour, 2015).

Governments rarely study the benefits of investment tax incentives, and so far no government does it in the MENA region. Although technical capacities may be a barrier, poor policy management seems to play a bigger role. Empirical studies have considered the

relationship between tax incentives and incremental investment; the implication often drawn is that if such relationship is positive, it must be beneficial (e.g. good for growth, employment, etc.). In the MENA region, non-tax policies affecting investment, such as barriers to entry, capital controls, public infrastructure, high statutory tariff rates, seem to be more important for investment than the CIT. The analysis in the World Bank 2015 MENA development report tends to support this view, as do other studies on the importance of tax factors in the presence of weak non-tax factors (Mansour, 2015; Alsharari *et al.*, 2018).

As a first step toward reforming their tax incentives, MENA countries need to improve transparency and evaluate the costs and benefits of their incentives. Policymakers and their advisors can agree or disagree on the usefulness of various types of tax incentives, particularly in the absence of strong empirical evidence. However, tax incentives should be subject to the general rules of good budgetary practice. This means relatively simple eligibility criteria, a minimum of information that beneficiaries must report to the tax administration, and an appropriate penalty regime for non-compliance. It also means that the cost of tax incentives, both past and in the medium term, must be estimated and made public, and that incentives must be subjected regularly (say every three-five years) to a thorough evaluation to assess whether they accomplish their objectives (Mansour, 2015; Al-Shboul and Alsharari, 2018; Alsharari and Youssef, 2017).

4.5. Tax policy reform choices

A review of tax policy reform in countries of the MENA region over the past two decades suggests that only marginal changes have been made to tax systems in most, especially as they relate to tax bases. More fundamental reforms that re-evaluate longstanding practices in tax policy, particularly in the area of consumption taxes, personal income tax and investment tax incentives should, therefore, be considered. Such changes demand stronger political commitment, transparency in the conduct of tax policy and a longer perspective. While changes at the level of policy detail may be useful, these tend to focus on short-term concerns rather than addressing the structural problems in tax regimes across the region (Helmy, 2013; Maddison, 2013; Mansour, 2015; Alsharari and Abougamos, 2017).

This section explains tax policy choices that MENA countries can pursue, bearing in mind the disparities in revenue levels that range from well above 40 per cent of GDP in most resource countries to moderate or even low in non-resource countries. The mixed socio-economic picture of the region that the study has described makes explicit there is no set of “one-size-fits-all” solutions for the region. Thus, in this section, general proposals for more targeted policy options relevant to each regional group are made, paying particular attention to the relative weight that governments should give to revenue mobilization versus efficiency and equity considerations.

Capturing non-resource economic rent. Non-resource taxes, mainly profit-based, can be usefully used to capture part of the rent in the non-resource sector that accrues as a spillover from spending resource revenues. Resource countries invest significantly in non-resource activities such as infrastructure and government procurement of goods and services for which markets tend to be highly regulated (e.g. barriers to entry for foreign investors; licenses, etc.). It can be argued that such activities are, to a large extent, captive to the presence of the resource rent and regulations, and should be taxed irrespective of revenue needs. The case for a form of profit tax is especially strong given the low levels or the weak role of PIT. For example, a tax on business profits would capture part of the significant rent that accrues to individuals in GCC countries.

Taxing non-nationals. The high percentage of expatriate residents in the populations of many GCC countries is another argument, somewhat similar to the previous one for taxation

in resource-rich countries – in this case, with rent accruing to resident non-nationals rather than resident foreign companies. Taxing non-nationals only, such as through withholding on remittances is, however, discriminatory in its impact on many low-income non-national residents – alternative, more equitable, policy options may include an income tax with a very high exemption threshold.

Taxing real property. Oil wealth has been invested heavily in residential and commercial property in GCC and, to a lesser extent, OME countries. Taxing real property because it is immobile, is not only efficient but also revenues can be directed to financing the cost of public infrastructure and other services necessary to preserve the value of real property. All, MENA country groups could benefit from more effective use of real property taxation. Fees on the transfer of real property should be reduced in some countries and, where they exist, recurrent taxes on real estate should be increased or administered more effectively.

Selective consumption taxes. Excise taxes on certain widely-consumed items can be both efficient and revenue generating. Therefore, more effective and efficient use of excises could include higher tax rates on consumption items such as tobacco, alcohol and soft drinks, petroleum products and motor vehicles. This policy choice is particularly relevant to GCC countries, where the broader issue of introducing a common VAT has suffered technical and political setbacks for nearly a decade, and also in the non-resource Mashreq country of Lebanon, where domestic products are treated more favorably than imports.

In the *Mashreq*, tax rates seem adequate by international and regional practices, and are probably on the low side in some areas (e.g. VAT rate in Lebanon; GST rate in Egypt; PIT rates in Jordan), which could be positive, especially from an efficiency and tax administration perspective. In these countries, tax revenue levels are also low, generally below 15 per cent of GDP, which is probably a reflection (at least in part) of low tax rates. If needed, tax revenues could be increased, through such policy options as increasing VAT rates, which tend to be low by regional and international standards, to meet additional revenue needs. It is, however, preferable first to streamline exemptions – low tax rates carry significant benefits, including lower distortions caused by exemptions and other non-neutralities in the definition of the VAT base, such as the registration threshold. Further, by raising excise rates, other taxes applicable to excised items, such as fees and stamps duties should be absorbed – in some Maghreb countries (e.g. [non-resource] Tunisia and [resource] Algeria), additional excise-like levies are earmarked.

In the non-resource Maghreb, tax rates are relatively high, and revenue levels exceed 20 per cent of GDP, which is arguably close to potential given per capita GDP and should therefore, emphasize equity and efficiency over revenue mobilization in their tax reform In non-resource country groups, equity and efficiency should figure prominently in tax reforms along with additional revenue needs, with the latter depending on current revenue levels about potentials and absorptive capacity to spend additional revenue effectively and efficiently. The regressive effect of VATs can be adequate, if not perfectly, addressed by reducing the number of rates. Two rates should be sufficient, but the reduction would be best achieved through a fundamental review of the use of exemptions and their targeting, with a view to narrowing their scope to fewer items than currently apply. Limiting the use of lower rates and exemptions may also be considered.

Reducing CIT rates. Rates in the range of 15-25 per cent are probably appropriate. However, countries should undertake a fundamental review of the use of tax incentives for investment, in particular, tax holidays. However, the use of CIT incentives for encouraging investment, in particular, tax holidays in Egypt and Jordan, should be curtailed. As in the Maghreb countries, two CIT rates may be justified with a higher rate applicable to sectors that exhibit country-specific rent.

Restructuring PIT rates and bases. The bracket taxed at zero could be increased in some countries, and the number of rates could be reduced to no more than four – without any loss of revenue or rate progressivity. This should be combined with a fundamental review of the PIT base, in particular, the use of deductions to relieve certain expenditures from the PIT and exemptions of certain types of income (e.g. portfolio and pension income). Considerations should be given to streamlining deductions given their conservative nature or converting them to tax credits calculated at the lowest positive PIT rate, with appropriate caps to limit the benefit to high-income individuals. This case for increasing PIT rates would apply, for example, in Jordan, where a higher tax bracket could be added to the current structure; or to change the rate structures in Egypt, Lebanon and Syria with higher rates on high incomes. The number of rates in Lebanon and Syria is also unnecessarily high, and could be halved. However, base-broadening options should be given priority, as should enforcing the PIT payable on self-employed and closely-held enterprises.

Finally, lowering transfer and registration fees on the immovable and movable property (to say, no more than 2 per cent), together with better enforcement should improve transparency with little or no revenue loss. Besides, countries should introduce or improve the taxation of recurrent taxes on real property. Stamp duties, particularly imposts on documents and contracts should be eliminated in most cases (exceptions to consider would include property and shares) or consolidated with fee systems where a case can be made for keeping them (e.g. driver's license and passport fees) and valued at cost or market value (Helmy, 2013; Maddison, 2013; Mansour, 2015; Alsharari and Abougamos, 2017).

4.6. The path forward: policy process and public participation

In light of the tax policy choices pursuable in MENA countries as outlined, this section addresses the requirements for the development and direction of effective tax systems based on the elements of tax policymaking. The scale of differences in revenue levels across the MENA region, from well above 40 per cent of GDP in most resource countries, to moderate or even low in non-resource countries, imply that revenue mobilization should not figure equally on the policy agenda of all MENA countries. For the non-resource groups in particular, equity and efficiency considerations should be prominent in any tax reforms, along with those of additional revenue needs – the latter depending on current revenue level potentials and absorptive capacity to spend additional revenue effectively and efficiently. For most resource countries, revenue policy should continue to focus on efficiency in managing resource revenues, and address equity issues on the spending side of the budget, including better targeted and more cost-efficient transfers to individuals and enterprises.

All, non-resource countries need to consider more carefully the implications for employment and unemployment of labor taxes, including social security contributions (SSCs). This issue could be particularly important when SSCs are considered together with middle and higher PIT rates on particular population cohorts – for example, women and young, educated individuals. Countries should also reconsider rate differentiation and exemptions in the taxation of investment income that causes distortions in the choice of saving instruments and provide opportunities for high-income individuals to substantially reduce their income tax (or avoid it altogether). Tax policy in this area should aim for low rates and greater neutrality to encourage compliance and facilitate enforcement. Even at low rates, this will likely generate some revenue and improve the progressivity of income taxation (Helmy, 2013; Maddison, 2013; Mansour, 2015; Alsharari and Abougamos, 2017).

In the resource-rich country groups (GCC, OME and resource Maghreb), tax policy should be directed at building simple and effective tax systems to pursue multiple objectives. Establishing a simple tax system with low rates on broad bases is,

fundamentally, institution-building and the capacity to design and administer taxation is an investment in national futures. It is clear that resource revenues will, ultimately, have to be at least partially replaced, either because of finitude or long-term commodity shocks. The experience of countries with well-established and stable tax institutions shows that this can take decades. An appropriate parallel from the region is found in the GCC, where although the process of building efficient systems to manage resource revenues was lengthy and complicated, it has proved a valuable investment.

To bring the tax policy options outlined above into the policy domain, it is useful to consider the policy process as three distinct elements at the broadest level: tax policy advice, policy interpretation and tax administration policy. *Tax policy advice* deals with analyzing and evaluating policy ideas to enhance the role that tax policy plays in an economy. Ideas for policy changes or new policies arise from many sources, internal and external to government. Among internal sources, three play a major role: ministries of finance, as guardians of fiscal policy, identify and estimate revenue sources for the budget; other ministries attempt to achieve dedicated policy objectives through the tax system (e.g. health, environment, industrial development, attracting foreign direct investment, etc.); and revenue administrations seek to improve tax compliance by ensuring that compliance with and administration of tax rules are relatively easy. Sources external to government include civil society organizations, the academy, business associations, the authorities of other countries and international organizations (Helmy, 2013; Maddison, 2013; Mansour, 2015; Alsharari and Abougamos, 2017). *Policy interpretation* is a core function of the tax administration directed toward interpreting the provisions of existing tax legislation and providing guidance and direction for taxpayers and administrative officials on how the existing tax code and regulations are to be applied in practice in specific situations. In this area, the judiciary plays a key role in interpreting tax laws, and may even influence policy changes (Helmy, 2013; Maddison, 2013; Mansour, 2015; Alsharari and Abougamos, 2017). *Tax administration policy* deals with the role of the revenue administration in core activities such as taxpayer services, returns and payments processing, collection enforcement and auditing (Helmy, 2013; Maddison, 2013; Mansour, 2015; Alsharari and Abougamos, 2017).

MENA countries exhibit to varying degrees of weaknesses in the second and third elements. Discussion of these aspects of tax policy is, however, beyond the scope and aims of the current paper. Tax policy advice, as the foundation of tax policy setting, is practically non-existent in the region. A cursory reading of MENA countries' proposals for policy changes in their annual budget submissions (or other vehicles, such as decrees and decisions) is sufficient to establish the absence of analytical underpinnings to tax policymaking. As this function is often relegated to a small number of key individuals, the resulting policy proposals are frequently made as legislative proposals with no analytical content that takes into account consequential issues such as impacts on revenue, economic and social equity, behavioral responses to changes in policy and the implications of their interactions with other policies. In such short-sighted processes, it is inevitable that important steps are omitted, pushing stakeholders to focus on the details of framing each article of draft legislation, the number of exceptions and exemptions that should be given and to whom, etc. and that policy results are wide of the original mark. This is not to say that something similar may not occur even in the presence of solid analytical underpinnings, given the pressures of lobbyists and public opinion and the lure of electoral opportunism, but at least the implications and the extent of divergence from original intentions would be known (Helmy, 2013; Maddison, 2013; Mansour, 2015; Alsharari and Abougamos, 2017).

None of the MENA countries discussed in this paper has established a unit or structure within their ministry of finance dedicated entirely to the design, monitoring and evaluation of tax policy, for which tax policy advice is fundamental. Some countries have made steps – Morocco, for example, publishes their tax expenditures) – but a necessarily structured approach to tax policy analysis within ministries of finance remains absent (Helmy, 2013; Maddison, 2013; Mansour, 2015; Alsharari and Abougamos, 2017). One of the consequences of this absence of dedicated advice, is that often consultations about policy (if undertaken) happen too late in the process of policy development, and thus, preclude proper discussion and analysis of policy implications for the relevant economic sectors and stakeholders. Therefore, MENA countries would benefit from the experience of many developed countries in establishing tax policy analysis capacity within their ministries of finance. Such capacity should be able to integrate analysis of all aspects of policymaking: economic, social, legal, accounting and international interactions. It would include access to a wide range of national macro and micro data available, and build the necessary analytical tools to exploit such data for policy analysis. It also needs to incorporate the means to address crosscutting issues in tax policy, such as the tax implications of trade, health and environmental policies. The complexities of tax systems in MENA are equal to those of developed countries; given existing levels of administrative and compliance capacities as described, they are, perhaps, greater. Finally, the imperative is for countries to attend to the analytical dimension of tax policymaking to engender public participation and improve outcomes for national economies (Helmy, 2013; Maddison, 2013; Mansour, 2015; Alsharari and Abougamos, 2017).

5. Concluding remarks

This paper has provided an overview of revenue and tax policy developments in the resource and non-resource country groups of the MENA region over the period 1990-2012, and through analysis of the trends revealed, has established the need for governments to diversify sources of revenue and suggested options for more productive revenue raising and tax policymaking. While constituent countries differ in their economic and political structures, and in the current situation of their tax systems, common features exist among country groups, which have been defined in this paper and on which basis some general tax reform options have been set out. The study recognized that all MENA countries can benefit from more effective and efficient use of real property taxation. Fee rates on the transfer of real property should be reduced in some countries and, where they exist, recurrent taxes on real estate should be increased or administered more effectively. Beyond such a generality, however, tax policy options must be grounded in detailed country-specific analyzes. At that level of detail, policy options are likely to vary significantly across countries, including the balance of revenue mobilization and equity and efficiency issues necessarily sought by governments of resource and non-resource countries, respectively. The paper's retrospective analysis of revenue levels and structure, together with its examination of the main features of tax systems by country, suggests an approach to the establishment of simple tax systems as the basis of capacity building, and greater socio-economic equity and efficiency in state expenditures notwithstanding current and possible future challenges to regional stability.

The study concludes that in resource-rich countries (GCC, OME and resource the Maghreb), tax policy should be directed at developing straightforward and efficient tax systems at very low tax rates, on broad bases, established on the basis of experienced

tax policy advice and analysis from the developed world. For the non-resource groups of countries, on the other hand, the study concludes that efficiency factors should figure prominently in tax reforms. In addition, the need for all countries in the region to improve equity and reduce the complexity of tax systems has been identified – taxation systems offer an avenue for socio-economic reform and the provision of additional revenue needs. When aspects of tax policymaking are thus, integrated, the quality of interactions between the state and citizens is likely to improve, and may even provide ballast against future economic and political shocks. Much depends on the capacity and will of governments to generate and spend revenues wisely and well.

The study also concludes that the status quo in the MENA region involves complexity, unfairness and significant economic costs. One consequence of it, is the amount of taxpayers' energy that goes into avoiding tax and governments' energy that goes into combating avoidance. The more complex and inconsistent the tax base, the more avoidance would be possible and the more legislation will be required, so the more effort is put into shoring up tax revenues rather than into following a coherent strategy. The need for tax reform is evident, as is the need for a clear and coherent strategic policy direction. That strategic direction needs to be set out and understood. Individual policy initiatives need to be assessed against it (Whitaker, 1997). There is an urgent need for the government to set out and pursue a long-term agenda of tax reform.

Like most developing countries and a number of developed, MENA countries do not estimate and publish regularly the cost of tax expenditures – investment incentives or others. These countries have recently experienced a democratic and economic transition, and hence, represent an ideal laboratory for the study of the relationship between political regimes and tax and expenditure systems. Governments rarely study the benefits of public expenditure, and so far no government does it in the MENA region. Although technical capacities may be a barrier, poor policy management seems to play a bigger role. Empirical studies have considered the relationship between tax incentives, investment and public expenditure; the implication often drawn is that if such a relationship is positive, it must be beneficial. In the MENA region, non-tax policies affecting investment, such as barriers to entry, capital controls, public infrastructure, high statutory tariff rates, seem to be more important for investment than the CIT (Mansour, 2015). Future studies are needed to highlight the importance of tax factors in the presence of weak non-tax factors.

This study recommends that MENA countries need to improve transparency and evaluate the costs and benefits of the tax system. Policymakers and their advisors can agree or disagree on the usefulness of various types of tax incentives, particularly in the absence of strong empirical evidence. However, tax incentives should be subject to the general rules of good budgetary practice. This means relatively simple eligibility criteria, a minimum of information that beneficiaries must report to the tax administration and an appropriate forfeit regime for non-compliance.

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Further reading

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