

# **Protest as the Last Straw - A Report on Jordan's Tax Reform in 2018**

**Ronja Schiffer**

**Friedrich-Ebert-Stiftung Jordan & Iraq**

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FES Jordan & Iraq  
P.O. Box 941876  
Amman 11194  
Jordan

Email: [fes@fes-jordan.org](mailto:fes@fes-jordan.org)  
Website: [www.fes-jordan.org](http://www.fes-jordan.org)  
Facebook: [www.facebook.com/FESAmmanOffice](https://www.facebook.com/FESAmmanOffice)

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In 2018, Jordan faced the largest protest in years due to increasing living costs, economic hardship and the announcement of a new tax reform. These protests surpassed the size and scope of those in the Arab Spring, forcing the government to resign. The law passed in November 2018 securing Jordan's international B1 credit ranking but creating an atmosphere of frustration in the country.

Jordanian experts analyse the main challenges and chances of the tax reform, focusing on the poor relationship between the government and citizens, built upon mistrust, corruption and loyalty, as well as the economic reforms needed to improve the national crisis.

The main recommendations are to increase government transparency, open more dialogue with civil society, experts and citizens, to attract investment to rejuvenate the local economy, while also improving democratic processes.

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## Introduction

Jordan experienced the largest protests in years in June 2018, exceeding the size and scope of the protests during the Arab Spring in 2011. These public protests led to the resignation of Prime Minister (PM) Hani Mulki and his cabinet. The main cause of the protest was the dire economic situation. In May 2018 the situation worsened with additional fuel price increases and the announcement of a new tax reform. The tax reform, which included lowering tax exemptions and increasing tax rates, triggered general strikes and protests around Jordan during Ramadan. The pressure on the government; by citizens, professional associations and civil society, grew strong enough to force the government to resign and for the King to withdraw the fuel price increases. Nevertheless, in September 2018 the new government, headed by PM Al-Razzaz, introduced a revised draft of the tax reform and opened it for public discussion. In November 2018 the final draft was approved by the parliament, with less public upheaval. It was amended by the Senate and sent to the King in December 2018. On December 2<sup>nd</sup> 2018, the approval of the law by the Royal Court came from Prince Faisal, the King's brother. This signified that the King does not directly want to endorse the reform.

These events put Jordan in the international spotlight, with discussions about the refusal of citizens to pay taxes as well as about the upcoming economic risks associated with derailing the IMF agreement. The aim of this study is to analyze the events through a local lens, by consulting local experts from the government, civil society and academia. Highlighting an alternative perspective, it presents the reasons for opposing taxes, the need for specific reforms and the desire for a transparent relationship between citizens and the government. The analysis develops recommendations informed by the specific needs mentioned throughout the interviews. The analysis extends over the tax reform, it links political, economic and fiscal reform as well as civil society to create a holistic analysis. This includes suggestions why the most recent draft of tax reforms did not trigger a similar situation such as in May. The interviews were conducted in October 2018 in Amman and incorporated academics, politicians, journalists and civil society representatives. The inclusion of local expert voices highlights concerns, hopes and advice towards the reform. They underline the high conflict potential of the new tax reforms in a country that has high rates of unemployment, poverty, and little potential for its youth.

The structure of the study will be as follows. First the study summarizes the political and economic situation in Jordan, followed by a short methodological explanation of the interviews. Then, a timeline of events for the tax reform and protests in Jordan is introduced. It is followed by a comparison of the current standing tax law of 2014, the May reforms and the current draft of reforms. The analysis focuses on the challenges faced by the new law in society, especially focusing on corruption, lack of trust and little availability of government services. The analysis structures around the challenges, chances and recommendations for the law itself, wider reforms in Jordan and the relationship between citizens and the government. The recommendations in the analysis are based on the experts', and the analysis is followed by recommendations by the author herself, which differ in scope and direction from the experts' recommendations. The paper concludes by presenting an outlook for the draft law and its implementation, focusing especially on the incorporation of civil society.

## **Political and Economic Situation**

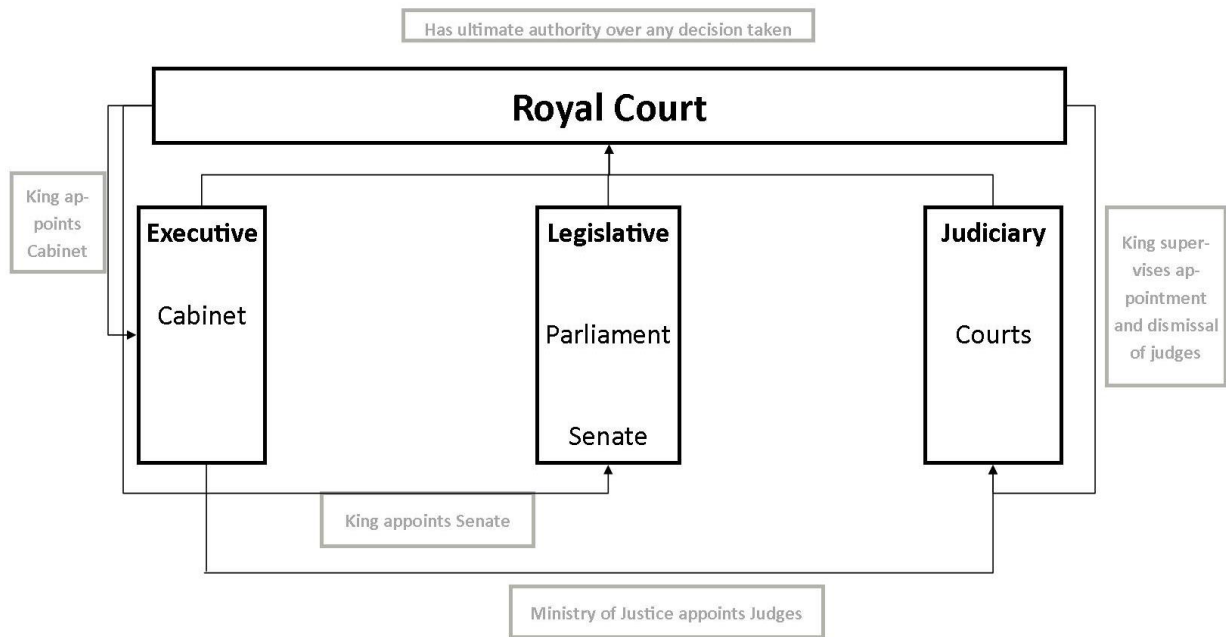
The Hashemite Kingdom of Jordan is in the centre of a conflict-ridden region. Especially the conflicts in Syria, Palestine/Israel and Iraq affect the country and its economic and political stability. Despite its location, Jordan has remained politically stable throughout the past two decades. Likewise, during the Arab Spring, which caused instabilities and conflict in the rest of the region, in particular in Syria, Jordan remained balanced. This builds upon several political and economic factors, briefly introduced now.

The political system in Jordan is based on a hereditary monarchy, with King Abdullah II in power since 1999. Jordan, established in 1921 under a British protectorate is officially independent since 1946. Even though Jordan sometimes is considered a constitutional monarchy, it is rather a monarchy with democratic elements, as the King has the ultimate power over most decisions in the country. Alongside the Royal Court, there is a bicameral legislature, with an elected parliament and an appointed cabinet. The parliament consists of 130 parliamentarians and is elected every four years. The lack of trust in political institutions has led to persistently low voter turnouts (e.g. 31,7 percent in 2017)<sup>1</sup>. There is a women and minority quota, granting 15 seats to women, nine to Christians and three to Circassians/Chechens. The women quota provides only 15,4 percent

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<sup>1</sup> Al Emam, D. (16.08.2017)

representation for women. The King appoints the senate, consisting of 60 members. The king can further dissolve the senate. The combination of an elected legislative branch and an appointed or hereditary executive branch results in a semi-democratic Jordan. The democratic aspects are weakened by the almost absolute authority of the King and the divisions into judiciary, executive and legislative being fuzzy (see Table 1).



**Figure 1 Jordanian Government Branches**

The Figure shows the blurred divisions between the three branches and the Royal Court. In the end, the parliament decides over legislation developed by the executive branches, further weakening the division and thus also oversight powers / checks and balances.

Jordan faces several major economic challenges. The main economic problems are the lack of natural resources, insufficient income through taxation, and Jordan’s dependence on foreign aid and investment. The Jordanian government uses a combination of liberal market policies on the one hand and strategies to attract foreign capital on the other. Especially since 1999, with the accession of King Abdullah II, Jordan’s economic policies focus on attracting foreign capital. The contribution of US ODA (Official Development Assistance) to Jordan amounted to 1,000,000,000 US



Dollar in 2017<sup>2</sup>. In general, 7,14 percent of GNI (Gross National Income) is through ODA<sup>3</sup>. Jordan imports approximately 97 percent of its energy needs from outside the country<sup>4</sup>. This dependence on outside resources creates a critical situation, in which Jordan is obliged to comply with international demands. This is utilized by the government in order to blame the international pressure for the economic hardships instead of addressing the economic challenges in a coherent and transparent way<sup>5</sup>.

In particular, the large demand for loans situates Jordan under international pressure, obliged to fulfil economic and fiscal conditions in order to obtain future funds. E.g. In 2018 national debt amounted to 95,6 percent of GDP (GDP in 2017 was 27,72 billion US Dollar)<sup>6</sup>. Furthermore, the growth of GDP has been decreasing, from around eight percent in the early 2000s to around 2 to 2,5 percent throughout the last few years. Additionally, with approximately 18,5 percent unemployed, a youth unemployment of above 30 percent, and a GDP per capita of only 2,829.9 Jordanian Dinar, the general economic outlook is pessimistic<sup>7</sup>. GDP per Capita is among the lowest in the region, while living costs are among the highest in the region. This is manifested by Amman being considered the most expensive Arab City<sup>8</sup>. Moreover, the following table shows the low average salaries of Jordanians, with many households depending on a single income<sup>9</sup>.

Sector	Female	Male	Total
Private and Public	458	507	493
Public	534	618	586
Private	393	458	442

Table 1 Average Salary Jordan 2017 in Jordanian Dinars

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<sup>2</sup> USAID (27.07.2018)

<sup>3</sup> USAID (07.11.2018).

<sup>4</sup> Worldbank (2018)

<sup>5</sup> Sidlo, K. (03.09.2018)

<sup>6</sup> Worldbank (2018)

<sup>7</sup> Worldbank (26.04.2018)

<sup>8</sup> Aljadid, R. (29.05.2018)

<sup>9</sup> Department of Statistics (2017).

The pessimistic economic outlook by citizens is amplified by the fact that tertiary degree holders are more likely to be unemployed than secondary degree holders<sup>10</sup>. In addition, women are more vulnerable to unemployment than men. This is mainly due to the mismatch of qualifications and education with available jobs in Jordan, which mainly are created in the construction and manufacturing sectors<sup>11</sup>. Higher Education in contrast mainly focus on the engineering and medical fields. Furthermore, Jordan's main industries are tertiary (66,8 percent in 2017), with secondary at 28,9 percent and agricultural production at 4,3 percent<sup>12</sup>. This highlights the low rate of production and the focus on service provision instead of industrial production.

In 2018, Jordan hosted 740,160 officially registered refugees, but estimations alone for Syrian refugees revolve around 1,2 million<sup>13</sup>. Over 80 % of the refugees live below the poverty line and are thus extremely vulnerable to economic changes and price increases<sup>14</sup>. This has put an additional strain on the economic situation and service provision, creating competition between the most vulnerable groups in the country. Some of the interviewees assume that the opening of the border between Syria and Jordan on October 15<sup>th</sup> 2018 will likely decrease the numbers of refugees, while increasing trade relations with Syria and Iraq. Thus, this might improve the economic situation in the future. Nevertheless, this is unlikely to happen any time soon, as Syria is still conflict-ridden and refugees are cautious to return. The predicted improvement in economic relations could disrupt Jordanian markets by flooding it with cheaper Syrian products, as happened with meat in November 2018<sup>15</sup>.

The economic situation will face critical hurdles for a positive economic growth in the future. This introduction is important to understand the developments around the tax reform in 2018 and the analysis of the challenges, chances, and recommendations surrounding it.

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<sup>10</sup> JSF (2016)

<sup>11</sup> Brown,A. Constant,L. Glick,P. Grant,A.K. (2014)

<sup>12</sup> CIA (30.10.2018)

<sup>13</sup> UNHCR (February 2018)

<sup>14</sup> Ibid.

<sup>15</sup> Jordan Times (07.11.2018)

## Methodology

The study is based upon local expert interviews. The experts included are government employees, scholars and civil society representatives. In total, nine interviews were conducted in October 2018. Six men and three women were interviewed. The interviews were semi-structured, including eight set questions, but introducing additional questions and focus depending on the flow of the interviews. The following questions are the set questions:

1. How do you evaluate the chances of the current law to be passed?
2. How do you evaluate the changes between the current standing law, the May reform and the current version?
3. Do you expect similar reactions as those in May?
4. What are the main challenges to the successful implementation of the law?
5. Why is there such a large opposition to taxes in your opinion?
6. How to best tackle the debt issue, finding a compromise between citizens and international donors?
7. Do you have recommendations on how to find a solution to these issues?
8. Who do you see as responsible? (the government, the international society or the people?)

The questions were available in English and Arabic. Further, the researcher was accompanied by a translator. The answers are not listed in the same order as in the questions, but incorporated into the thematic analysis.

The nine interviewees can be sorted into three categories:

**1. Public Sector Representatives**

- a. MP Khair Abu Salik
- b. Hussam Abu Ali
- c. Dr. Salma Nims

**2. Academics**

- a. Dr Walid Al Khatib
- b. Dr. Ghassan Omet
- c. Nesreen Barakat

**3. Civil Society Representatives**

- a. Dr. Ma'en Alqatamin
- b. Samer Alrjoub
- c. Samah Baibers

## Timeline of Events



In order to understand the present discussion around the tax reform, it is crucial to give some background about the events that unfolded in Jordan. Starting in 2012, a government report estimated the total tax loss suffered by Jordan as 1,9 billion Jordanian Dinars<sup>16</sup>. This is a loss of almost 7 percent of GDP. Out of this, 36 percent are lost to tax evasion. Nevertheless, the new tax law that was approved in 2014 (and came into force in 2015) did not tackle the problem of tax evasion in a conclusive manner. E.g. in the current standing law, the fine for tax evasion is the same amount of the tax evaded. This incentivizes tax evasion. The current standing law taxes only four to five percent of Jordanians directly, with the remaining tax revenues coming from indirect taxation.

Since 2003, the Jordanian government has increased its usage of rolling debt, which means obtaining new loans to pay off old loans (Samer Alrjoub). The IMF reform plan in 2016, linked to a 723 million US Dollar loan, was no exception to this. The current loan was granted in order to introduce further economic reforms, curbing the deficit and revitalizing the crisis ridden country. Nevertheless, the reforms compromise austerity measures, which lead to a contraction of the economy. This links to the history of recommendations given by the IMF to Jordan. In the 1990s, Jordan and seven other countries received the same Structural Adjustment Programs (SAPs) by the IMF, treating these countries as “experimental rats”, causing many of today’s economic

<sup>16</sup> Jordan Economic and Social Council (2014)

troubles (Samer Alrjoub). The one-size-fits-all approach and the issue of little local expertise considered, amount to additional issues now, as Jordan faces pressure to increase austerity measures.

Additionally, the current refugee situation in Jordan puts further pressures on the government finances. Even though Jordan received increased foreign aid to tackle the humanitarian crisis, the government and some experts stress it was not enough aid (Samah Baibers, Khair Abu Salik). Through the Jordan Compact in 2016, “Jordan committed to improving access to education and legal employment for its Syrian refugees (...) in return for billions of dollars in grants and loans and preferential trade agreements with the European Union”<sup>17</sup>.

It is criticized by some experts for bringing little advantage to Jordan (Samah Baibers, Khair Abu Salik). This is due to the limited market access that Jordanian companies actually received. The issue is that Jordanian companies need assistance in boosting attractiveness of investment in them as well as help to access the favourable market access and use it successfully<sup>18</sup>. Thus, the benefits of the deal towards the favourable market access are minor, not aiding the Jordanian economy to improve greatly.

In 2018, the economic situation continued to worsen, with price hikes in fuel and electricity as well as an end to several subsidies. This affected all citizens, but primarily the poor and middle class. E.g. the citizens increasingly felt the impact in the transport sector. Personal transport increasingly became unaffordable, while public transport is not a suitable alternative, due to lack of availability, consistency and safety. Thus, when PM Mulki announced the new tax reform in the already tense situation, people started protesting. PM Mulki argued that the reform had no alternative and that the government would proceed no matter what. This was perceived as ignorance and offensive rhetoric and sparked widespread anger. The general strikes and demonstrations by citizens and professional associations demanded the government to be dissolved. The majority of parliamentarians supported the citizens, stating that they would oppose the new tax reform if it came to a vote. By the end of May, the Council of Professional Associations gave the government a

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<sup>17</sup> UNHCR (2018)

<sup>18</sup> Wana Institute, Mercy Corp and UKAID (2017)

21/05/2018	Tax law endorsed by the cabinet, sent to parliament. 79 out of 130 Parliamentarians oppose the new reform
30/05/2018	More than 33 trade associations and parts of federal unions went on a general strike on 29/05/2018, diverse crowds, largest strikes in years Calls for government to step down Council of Professional Associations one week ultimatum
01/06/2018	<b>حملة معناش</b> Repeated Increase in oil prices, campaign where cars were parked in tunnels, bridges, etc as a means of protest
04/06/2018	Prime Minister Mulki steps down
07/06/2018	Prime Minister Razzaz New Cabinet Tax Reform cancelled for now
17/06/2018	Saudi Arabia, Kuwait and UAE pledge 2,5 billion Dollars to support Jordan, including a deposit in the central Bank, guarantees to the world bank, budget support and development aid

one-week time limit to withdraw the reform, threatening with another general strike the following week. These developments followed until the major breaking point in the beginning of June.

The protests grew to an unprecedented size, with *Hamlat M3nash*<sup>19</sup> blocking major roads as a protest against the fuel increases and general strikes with large crowds that attracted a diverse group of people. This resulted mainly from the fear and anger felt by the large amount of vulnerable persons and the middle class, leading to enough pressure to force PM Mulki to resign on 4<sup>th</sup> June 2018. The experts underlined that this was not exclusively due to the tax law, but rather due to several factors, such as the general economic state, as well as the arrogance by his government and the non-existence of communication of the reform (Samah Baibers, Nesreen Barakat, Dr. Ghassan Omet). Instead of transparency, the government acted in secrecy, causing rage and a sense of betrayal (Dr. Ma'en Alqatamin, Samah Baibers).

The situation was initially calmed by the King's abandonment of the fuel price increases. Furthermore, on June 7th, the King appointed Dr. Omar Al-Razzaz as PM, an educated expert on economy and urban planning. He previously worked as country director of the World Bank in Lebanon, as well as director of Jordan's Social Security Cooperation, and in several other high ranking economic positions in Jordan. The former minister of education was tasked by the King to ease tensions, restore trust in the government and develop a new tax reform. His initial new cabinet consisted of 14 new and 14 old ministers. Since the early formation, there has been another

<sup>19</sup> *Hamlat N3nash* means "We have nothing" campaign, drawing upon the difficult economic situation of many citizens

reshuffle in October 2018. As a first step, PM Razzaz stalled the tax reform as to alleviate the tension in the country. He came into office at the time of a poor general economic and financial situation (Samah Baibers). An additional pressure on PM Razzaz and his cabinet is the debt repayments due in 2019, amounting to over 1 billion Jordanian Dinar.

Following these events, a debate started about who was to blame for the precarious economic situation. A typical response by the Jordanian government was to blame the refugee crisis and the lack of external aid. One of the main arguments was that because of the crises around Jordan, it lost access to its major markets, e.g. Syria and Iraq. A major issue in the usage of this narrative is that it neglects the government's responsibility and role in the economic crisis. This was stressed again in June 2018 by foreign minister Al-Safadi. The continuous phrasing of the crisis as something external to Jordan ignores the mismanagement of resources internally. The effects of the refugee influx from Syria do affect Jordan, nevertheless the immense problems caused by a bloated but ineffective public sector; mismanagement and corruption also need to be tackled. Especially highlighting that Jordan receives about 7,14 percent of its GNI from foreign aid, being one of the largest per capita receivers of foreign aid worldwide<sup>20</sup>.

In June 2018 new foreign aid was pledged to Jordan from three Gulf states. Saudi Arabia, Kuwait and the UAE announced a five year and 2,5 billion dollar deal to support the country's economy. This is to reassure both internal and external financial experts and lenders. Jordan now receives more development help than other crisis-ridden countries such as Afghanistan. It is partly built on the rhetoric that the international community should 'be aware of its responsibility' and that Jordan cannot be blamed for its economic turbulences. In contrast, the tone towards Jordanians is different. As a speech of the Crown Prince at Yarmouk University stresses, the responsibility lies with the young people to shape their own future and to rely less on the government. An excerpt of the speech reads as follows:

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<sup>20</sup> USAID 07.11.2018



02/07/2018	Crowne Prince Speech at Yarmouk University
10/09/2018	New Tax law presented
19&20/09/2018	Town Hall Meetings end in protest End of discussion period
25/09/2018	A delay in the new tax reform will lead to international downgrading by credit institutions, as 1 Billion JD due in 2019
03/10/2018	Drop in Confidence <ul style="list-style-type: none"> <li>only 30 % of public and 35% of opinion leaders have a positive outlook</li> <li>Drop of 30 % in trust of government</li> <li>Main issues are unemployment and economic situation</li> <li>40% want complete, 44% limited government reshuffle</li> </ul>
04/10/2018	Mecca Summit Deal signed
14/10/2018	Parliament discussion King announces plans to fight corruption
15/10/2018	Jordan-Syrian border reopened

“We live in an era of self-reliance. Today, there are no public sector jobs ready to absorb our generation. Opportunities are created by pioneers and entrepreneurs; there will be no waiting queues for job seekers in the future. Second, our generation is the one tasked with and qualified to take Jordan into the future, where opportunities are created through bold ambition, innovation, and entrepreneurship. And I know my fellow young Jordanians very well. We will not settle for lack of progress in Jordan” (Crowne Prince, 02/07/2018).

Thus, a double rhetoric of responsibility emerges, in which the government flees its own task by delegating the responsibility for the dire economic situation to the citizens and foreign donors. The pressure for the government to fulfil its obligations to international donors increased again as the repayment deadlines of 2019 approach.

The announcement of the new tax law in early September was thus an expected event. The cabinet gave ten days for the draft to be discussed and commented on. Thus, they attempted to improve their communication and transparency. In accordance, the government tried a new communications approach and set up a tour of town hall meetings to inform the citizens. These meetings were met with resistance and renewed protests. A CSS study showed that 35 percent of the survey emphasized these meetings as important, but only 13 percent found them effective (Dr. Walid Al Khatib). The problems of little discussion and increased protest decreased the usefulness of the meetings (Dr. Walid Al Khatib). Nevertheless, PM Al-Razzaz stressed that Jordan cannot afford a delay in approving the tax law, as of the dire economic situation and the upcoming repayments. The expert interviewees revealed similar

voices, as the experts stress that the reform is needed in order to keep the positive credit rankings and cheap loans, thus being able to honour the current debt plan (Samah Baibers and Nesreen Barakat). If Jordan will not pass the reform, it will probably be down-ranked, also affecting the currency (ibid.). The stability in the B1 ranking for Jordan, published on November 10<sup>th</sup> 2018 by Moody, is bound to the reforms and the outlook of a decrease of debt to GDP ratio to 91 percent in 2022<sup>21</sup>.

The increasing tension between citizens, government and the international community led to a decrease in confidence in the government, with calls to reshuffle the government and critiques of the tax reform saying that it is the same draft as in May, just with minor changes to its make-up. The drop in confidence in the government appeared for some to be a natural reaction to the taxes, which people oppose (Samah Baibers). Dr. Ma'en Alqatamin in contrast, clarified that it is also anger about the little change done by the government, even though they should know better practices (e.g. the study on direct tax). In these troubling times, Saudi Arabia, Kuwait and the UAE signed the Mecca summit deal, which included the 2,5 billion Dollar pledged in June. Samah Baibers clarifies that this deal was too late to have an effect on the crisis.

In the end of November 2018, protests have re-emerged in Amman. After the passing of the reform by the lower house on November 18<sup>th</sup> 2018, the vote was 54 to 50, a very small margin. Further, it has been amended in the Senate, however the Senate withdrew its changes in order to avoid a joint session and approved the parliamentary version. On December 2<sup>nd</sup> the signing of the law by Prince Faisal signified the tense situation of endorsing the law directly by the King. Currently it is difficult to predict what will happen from mid-December onwards.

## Comparison of the Tax Laws

The following section compares the current standing tax law, the May reform, and the September reform. Furthermore, the parliament and senate amendments in October and November 2018 are added. The relevant changes can be divided into three sections: a) natural persons, b) legal persons and industry; and c) tax administration. The information is divided into tables in order to highlight

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<sup>21</sup> Ghazal, M. (10.11.2018)

the changes in a structured way. The analysis of these changes is combined with the insights from the interviews, explaining some background information on the reforms and how they compare.

The interviews unveil that all interviewees were sure that the new reform would pass in parliament. Because of the deadlines to repay debt approaching, there is pressure to implement it before the start of 2019, and thus the parliament is pressured to pass it before the middle of November. The passing in the lower house in mid-November underlines this. The interviewees stressed that the new law needs to have amendments and will not pass the way it was received, however, they differ on the scope of the amendments. The amendments introduced in both the lower house and Senate were received negatively by the press and experts from all over Jordan, as it diminishes additional gains and does not incorporate important amendments proposed by the Economic and Investment Committee<sup>22</sup>.

Comparing the different versions, the interviewees differ on the direction of change. An important critique to all drafts is that they are not gender-neutral and affect women in a disproportionate manner. Dr. Salma Nims stresses that “we never look at the laws that have differentiated effects on gender”. An example of this is that before the current amendments, women did not receive allowances, now even though they receive exemptions; they are by default lower than those of men. Even though it was perceived as a positive development that the Economic and Investment Committee as well as PM Razzaz seemed willing to hear this criticism on gender-neutral reforms, the actual reforms lacked these important amendments. The interviewed public sector representatives found the new reform to be better than the May reform, defending the changes and stressing the amendments that are planned by the Economic and Investment Committee. Khair Abu Salik was re-elected as head of the committee on October 21<sup>st</sup>, heading the committee in amending the current draft. Nevertheless, the outcome of the reform depended on how much will be passed on the general floor. Thus, the current amendments based on the September reform are now compared with the May reform and the current standing law.

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<sup>22</sup> The Economic and Investment Committee is part of the Lower House and responsible for amendments to legislations around the economic and fiscal sectors

## Natural Persons

Categories	(A) Current Standing Law 2014	(B) Proposed Tax Reforms May 2018	(C) Proposed Tax Reforms September 2018	(D) Changes in parliament	(E) Endorsed
Tax Exemption	The first 12,000 JD exempted for individual natural persons  24,000JD for Natural persons with dependants or for couples	The first 8,000 JD exempted for individual natural persons  16,000JD for Natural persons with dependants or for couples	The first 9,000 JD exempted for individual natural persons in 2019, 8,000JD from 2020  18,000JD for Natural persons with dependants or for couples in 2019, 17,000 from 2020 (article 8)	The first 10,000 JD exempted for natural persons in 2019, 9,000 JD from 2020  20,000JD for natural persons with dependants or households in 2019, 18,000 JD in 2020	As in D)  Article 7 of the reform
Additional exemption	4,000JD for health and education costs per year (+ rent, interest on housing loans, technical and legal expenses)	No additional exemption	No additional exemption	3,000 for health and education in 2019, up to 5,000 JD per year from 2020, 1,000 JD for general health and education, 1,000 JD for a wife, and 1,000 JD per child (counts for up to three children)	From 2020 1,000 JD for health, education, rent and Islamic loans, plus an 1,000 JD for each child up to a maximum of 3,000 JD, plus an additional 1,000 JD for a wife  Article 7 of reform
Pension	Taxes imposed on pensions over 3,500 JD including dependency after 01/01/2010,	Taxes imposed for pensions over 3,500JD	Taxes imposed for pensions over 3,500JD (Art. 4.14)	Taxes imposed on pensions over 2,500 JD, with any amount over 2,500 JD taxed at 9 %	As in D)
Personal tax rates	1 to 10,000 JD 7 %  10,001 to 20,000 14%  20,001 + 21%	1 to 5,000 JD 5%  5,001 to 10,000 10%  10,001 to 15,000 15%  15,001 to 20,000 22%	1 to 5,000 JD 5%  5,001 to 10,000 10%  10,001 to 15,000 15%  15,001 to 20,000 22%	1 to 5,000 JD 5%  5,001 to 10,000 10%  10,001 to 15,000 15%  15,001 to 20,000 20%	As in D)

		20,001+ 25%	20,001 to 300,000 25%  >300,000 on all 25%  (Art 9a)	20,001 to 1,000,000 25%  1,000,000 + 30%	
Solidarity Tax natural person	No social solidarity tax	No social solidarity tax	1% social solidarity tax on taxable income (Art 9b)	Removed	Removed

Table 2 Natural Person Tax Comparison

Comparing the reforms on natural persons, several important changes crystallize. One of the changes is the introduction of the social solidarity tax. It concerns the interviewees, as some argue it is not transparent and adds to indirect taxation. The experts agree that the purpose of social protection is positive; they criticize the lack of transparency about where exactly the money will go (Dr. Walid Al Khatib, Dr. Ma'en Alqatamin). An example of the effects of the reform will be given, by calculating the taxes of an average salary paid by a male (507 Jordanian Dinar) and a female employee (458 Jordanian Dinar), an employee receiving a salary of 1,000 Jordanian Dinar and an employee receiving 2,500 Jordanian Dinar (see Table 3). These are all based on individuals, not families.

	Male Average Salary	Female Average Salary	Mid-level employee	Senior employee
Monthly Income	503	458	1,000	2,500
Yearly Income	6,036	5,496	12,000	30,000
Exemption	All exempt	All exempt	12,000	8,000
Taxes through personal tax rates	/	/	/	1820
Income left	6,036	5,496	12,000	28,180
Percentage taxes to Income	0	0	0	6,1

Table 3 Tax Calculation Current Standing Law 2014

	Male Average Salary	Female Average Salary	Mid-level employee	Senior employee
Monthly Income	503	458	1,000	2,500
Yearly Income	6,036	5,496	12,000	30,000
Exemption	All exempt	All exempt	8,000	8,000
Taxes through personal tax rates	/	/	200	3,100
Income left	6,036	5,496	11,800	26,900
Percentage taxes to Income	0	0	1,7	10,3

**Table 4 Tax Calculation Proposed Tax Reform May 2018**

	Male Average Salary	Female Average Salary	Mid-level employee	Senior employee
Monthly Income	503	458	1,000	2,500
Yearly Income	6,036	5,496	12,000	30,000
Exemption	All exempt	All exempt	9,000	9,000
Taxes through personal tax rates	/	/	150	2,750
Income left	6,036	5,496	11,820	27,040
Percentage taxes to Income	0	0	1,5	10

**Table 5 Tax Calculation Proposed Tax Reform September 2018 (for the year 2020)<sup>23</sup>**

For an individual with an average salary, there is no effect on direct taxation. Only people that earn a monthly salary above 667 Jordanian Dinar have to directly pay taxes with the new reform. Thus, the changes affect the citizens that earn more than average considering direct taxation. The government estimates that 12 percent of citizens will be affected directly. For an employee with a monthly salary of 1,000 Jordanian Dinar, the increase from the current standing law to the current version will be 150 Jordanian Dinar per year. This is a 50 Jordanian Dinar decrease to the May reform and a 150 Jordanian Dinars increase from the 2014 draft. For employees receiving 2,500 Jordanian Dinar, the increase in taxes is quite significant. With the current law, the employee will pay 1820 Jordanian Dinar per year in taxes. The May reform increases this to 3,100 Jordanian Dinar, and the

<sup>23</sup> <http://www.jordantimes.com/news/local/mps-start-debating-income-tax-bill-after-drastic-changes-made>

endorsed version increases the amount under the current standing law to 2,750 Jordanian Dinar. This means an increase of four percent of his yearly salary for taxes, from 6,1 percent to 10 percent. The problem is that even though 90 percent of Jordanians are still excluded from the direct taxes, the indirect taxation affects all citizens in the same manner, examples being the sales tax. Thus, all people that buy groceries will pay 16 % for most products, despite differences in income. Hence, indirect taxation does not acknowledge different access to resources. Income tax is more suitable to take these differences into account by taxing salaries and incomes. Khair Abu Salik states that currently three billion Jordanian Dinar in taxes are acquired through general sales tax and one billion Jordanian Dinar through income tax. This is the root of many economic problems, as it creates an unfair system of taxation, which lays a heavy burden on the poor in particular (ibid).

The problem of the effects of indirect taxation continues to the second category, legal persons and the industrial sector. Increases in industrial and business taxation will be reflected in an increase in prices for services and goods, as the companies will not bear the costs themselves. Thus, the more citizens pay in direct and indirect taxes, the less they can spend, leading to lower tax income (Dr. Ma'en Alqatamin). It is related to the logic of contracting and expansionary fiscal policies. The current policies are contracting, decreasing money available to spend, and slowing the economy. This bases itself on austerity measures, demanded by international donors. The problem is not the acceptance that Jordan needs to reform its economy, but that with the current system the taxes will be spent on paying salaries and debt (Samer Alrjoub). This means no new investments and thus no development (Dr. Ma'en Alqatamin). This in due course will worsen the economic situation further, causing additional burdens on the citizens.

## Legal Persons and Industries

Subcategories	A) Current Standing Law 2014	B) Proposed Tax Reforms May 2018	C) Proposed Tax Reforms September 2018	D) Changes in Parliament	F) Endorsed
Corporate income tax rates	<p>Banks 35%</p> <p>Mining, Insurance, reinsurance, financial leasing, Telecommunication, financial intermediation, brokerage, electricity generation and distribution 24%</p> <p>Industrial sector 16%</p> <p>Other legal persons 20%</p>	<p>Banks 40%</p> <p>Mining 30%</p> <p>Insurance &amp; Reinsurance, financial leasing 40%</p> <p>Telecommunication, financial intermediation and brokerage, electricity generation and distribution 24%</p> <p>Other legal persons 24%</p>	<p>Banks 35%</p> <p>Mining, financial leasing and brokerage firms 30%</p> <p>Insurance, reinsurance, financial leasing, Telecommunication, electricity generation and distribution 26%</p> <p>Other legal persons 20% (Art 9b)</p>	<p>Banks 35%</p> <p>financial leasing, Telecommunication, electricity generation, distribution, insurance and other legal persons 24%</p> <p>Industrial Sector 14%</p>	<p>Banks 35%</p> <p>financial leasing, Telecommunication, electricity generation, distribution, insurance 24%</p> <p>other legal persons 20%</p>
Export	Profits outside the country not taxed	No changed	Exports now included (Art 3)	As in C)	Consider Law 29 2009 Sales Law
Social Solidarity Tax	No social solidarity tax	No social solidarity tax	1% social solidarity tax on net profits of company for scientific research and combatting poverty	Removed	Removed
Research & Development (R&D)	R&D expenses deductible whenever	1% levy on net profits before tax to public or private shareholding companies for R&D, innovation	Removed	Removed	Removed



Agriculture	Tax exempt	First 25,000 JD exempted for companies selling inside the kingdom and individuals producing inside the kingdom	First 25,000 JD exempted for companies selling inside the kingdom and individuals producing inside the kingdom (Art 9b)	First 50,000 JD from companies from sales inside the country exempted and first 1,000,000 JD from individuals	First 50,000 JD from companies from sales inside the country exempted and first 1,000,000 JD from individuals
Taxes on developmental areas	5% on Developmental areas on industries, according to industrial rates	As in A)	2019 7%  2020 10%  2021 14%  2022 17%  2023 & after 20%	2019 1% Then every year +1% until it reaches the maximum of 8%	Like in a)  Plus 10% for any other project or activity
Sales Tax	General goods and services  16%  Home Internet, Building Iron, Reinforcement steel, certain types of food 8%  Specified agricultural products, fruits, meat, vegetables and live animals 4%  Specified Products, e.g. energy saving products and pharmaceutical industry input 0%	No changes	No changes	General Goods and Services  14 %	Consider Law 29 2009 Sales Law – new instruction that will raise it to 20 %

Industries related to general goods except pharmaceuticals and clothes	General tax	2019	As in B)	As in B)	As in B)
		25%			
		2020			
		20%			
		2021			
15%					
Industries related to pharmaceuticals and clothes products	General tax	2022	As in B)	As in B)	As in B)
		10%			
		2023			
		5%			
		2019			
50%					
Free Zones	The provisions provided for in the Law of Aqaba Special Economic Zone Authority and Investment Law shall apply with respect to imposition of and exemption from the tax.	2020	Profits in free zone according to Article 9a and 9b, if it does not fall under that 6% tax	As in C)	No changes to 2014
		30%			
		2021			
		20%			
		2022			
10%					
2023	As in A)				
5%					

**Table 6 Legal Persons and Industry**

Dr. Walid Al Khatib expects less of demonstrations, as the citizens might feel relief on food costs through changes on the taxation of agricultural products. Agricultural goods are exempt from tax. Producers of agricultural products are not tax exempt anymore, companies have the first 50,000JD from sales within the kingdom exempt, and individuals the first 1,000,000 Jordanian Dinars from sales within the kingdom. The double taxation proposed by the Senate of 10 % on capital profits from stock trading and 10% on the share profits distributed by public shareholding companies above 10,000JD has been scrapped and thus is not included in the table. However it is important to mention, as it sparked outrage from experts and companies. Furthermore, the changes on exports and the free zones have been revised and thus the Sales Law 29/2009 is the guiding document. In

this there is plans to adjust the sales tax next year to 20 percent. This will increase indirect taxation and thus will increase the tax burdens carried by the citizens. Now the comparison shifts to the last category, the tax administration changes.

## Tax Administration Comparison

Subcategories	A) Current Standing Law 2014	B) Proposed Tax Reforms May 2018	C) Proposed Tax Reforms September 2018	D) Changes in Parliament	E) Endorsed
Tax Evasion	Fine for - natural persons : 100 JD plus amount evaded, - legal persons 200 JD plus amount evaded companies 500 JD plus amount evaded	Fine for tax evasion same as the amount evaded, possible criminal proceedings	Fine for tax evasion double the amount of money evaded	Fine for - natural persons : 100 JD plus amount evaded, - legal persons 300 JD plus amount evaded - companies 1,000 JD plus amount evaded	Fine for - natural persons : 100 JD plus amount evaded, - legal persons 300 JD plus amount evaded companies 1,000 JD plus amount evaded

Table 7 Tax Administration

The main change for tax administration is about tax evasion. The fine for tax evasion will be double the amount of tax evaded, which is a significant change to the previous law, where the fine for tax evasion was the exact amount of value evaded. This in fact, encouraged rather than prevented tax evasion, as there is no real danger in evasion. Nevertheless, the interviews showed that the stricter regulations for tax evasion are feared to have detrimental effects, forcing companies out of the country (Nesreen Barakat, Dr. Ma'en Alqatamin). Furthermore, the requirement for small businesses to issue an audited financial report each year to the tax department, is an HR and financial burden. Neither are there enough auditors to do this, nor can small businesses afford the report, which will likely cost more than 1,000 Jordanian Dinar a year (Dr. Ma'en Alqatamin). The fine for not submitting the report starts at 1,000 Jordanian Dinars and is therefore not an option. This is an extra burden on an already struggling sector, which may lead to more closures and a higher unemployment rate. Another issue that was mentioned in almosty all interviews is the low quality

of tax administration human resources. From the availability of sufficient auditors, to problems of corruption in the tax administration, to a mentality of “you are guilty until proven otherwise” (Nesreen Barakat), the experts show little trust in the abilities of the department.

This section gave an overview of the main changes the new reform entails. The new law is conflictual: some welcome the reform, while others are critical of its implications. The main issue is the continued reliance on indirect taxation. Hence, the study will now turn to the challenges and chances of the law.

## **Chances and Challenges of the Tax Reform in Jordan**

This section introduces an analysis of the main chances and challenges identified by the expert interviewees and the comparison of the different drafts. Analyzing both chances and challenges results in certain recommendations by the experts, which should be followed to improve the future economic situation in Jordan. The experts agree that this law is only the first step of a needed reform package, and that without wide ranging changes the tax reform will fail. The structure follows an analysis of the law itself, the reforms demanded and lastly the relationship between citizens and the government.

### **Challenges, Chances and Recommendations for the Law**

The Economic and Investment Committee, headed by Khair Abu Salik, has developed wide ranging amendments to the draft received by the parliament, but to get them approved on the floor is challenging (Khair Abu Salik, Dr. Salma Nims, Dr. Ma’ en Alqatamin). The endorsed version shows that many of these amendments have not been incorporated. This relates to Dr Salma Nims’ warning that the “democratic processes are not as genuine as we think” and that votes are affected by different power structures. This includes corruption in the parliament and manipulated votes by different entities, such as companies, government officials and lobby groups.

Another main challenge is the composition of direct and indirect taxes. Even though the Al-Razzaz government conducted a study on the composition of the taxes in Jordan, recommending a switch to an increase in direct taxes, the new reform does not sufficiently include this (Dr. Ma’ en

Alqatamin)<sup>24</sup>. Under the current standing law from 2014, the composition is 76 percent indirect taxes and 24 percent direct taxes (Hussam Abu Ali, Dr. Ma'en Alqatamin, Khair Abu Salik)<sup>25</sup>. In general, a composition of 60 percent direct and 40 percent is preferable and fairer to the citizens. The endorsed version will not improve this composition. Further, currently 26,5 percent of GDP per capita are spent on taxes, which is a large burden, especially on the poor classes (Samah Baibers, Dr. Ma'en Alqatamin, Khair Abu Salik). Hence, there must be bolder reforms on the composition of the taxes, as they affect the citizens and in particular the poor and middle class. Further, a wide ranging reform package around political, economic and fiscal changes has to be implemented.

In spite of the doubts about the law, it also presents chances. One of them is the law initiating a two year government program in order to improve the economic conditions in the country. This should include diverse reforms in economic, fiscal and political sectors. Further, the government needs to be given enough time to prove that it seriously wants to improve conditions (Samah Baibers, Dr. Ghassan Omet). The recurrent government changes cause impermanence, so the strategies, which are based on the government that approved them, fail with a government change (Dr. Ma'en Alqatamin). Instead long term strategies, not dependent on single governments, need to be developed so that permanence in policies and politics can be reestablished.

The recommendations revolving around the law directly are specific. The first recommendation is to change the composition of taxes, from focussing on indirect taxes to direct taxes. Currently there is 65 to 70 percent of tax revenue which emanates from the sales tax, reducing it from 16 to 14 percent will not have an effect on the citizens, as it will be absorbed as extra profit (Dr. Ghassan Omet). These recommendation show the conflict between the experts, proposing different approaches to the challenge of indirect taxation. The recommendation to not decrease indirect tax, e.g. through the VAT, thus will mean to increase direct taxation and not to decrease indirect taxation, resulting in a higher tax burden. Furthermore, several interviewees mentioned that income tax should be the main source of tax revenue, proposing a system where everybody pays, from 1 percent up to 50 percent based on income (Dr. Ghassan Omet, Nesreen Barakat). The tax exemption provoked discussion, as there was debate if these should be increased or decreased.

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<sup>24</sup> Jordan Times (04.09.2018)

<sup>25</sup> Indirect taxes are taxes that are not depended on personal income and assets, but instead taxes that affect all citizens in a similar manner, such as VAT.

While Dr. Ghassan Omet demanded them to be decreased, similar to systems in the UK and Germany with about 5,500 GBP per year, Dr Salma Nims and other demanded an increase or for them to stay as they are. Dr Nims especially focussed on the effects on women and elderly, as the exemption help women that take up caring roles and thus do not work officially. These recommendations on the individual are argued to improve the current state of reform.

There is further changes of the law demanded, especially about the tax brackets. The tax brackets are based on the power of the sector, thus sectoral taxes result in a “power war”, in which they lobby for certain rates and the strongest will win (Nesreen Barakat). This is not in the interest of the country itself, there should instead be a committee based on the sectors evaluating contribution to GDP, profits, contribution to taxation and then propose rates accordingly (ibid.). There must be an action plan tackling tax evasion in the construction and medical sector (Nesreen Barakat, Dr. Salma Nims, Dr. Ghassan Omet). A lump sum according to profession and geography would reduce the ability of evasion as well as opening the closed banking sector, welcoming competition and stopping protectionism (Dr. Ghassan Omet). This section set out the main challenges identified by the experts, the chances of the law in conjunction with further action and which details and amendments the experts want to see for it to improve in quality. The focus is about alleviating burdens from citizens and economy, which are introduced by the new reform. Increasing productive potential and spending capacities might ease the economic situation faster than the current austerity measures.

### **Challenges, Chances and Recommendations for Reforms**

Having addressed the reform by itself, the following section focusses on wide-ranging reforms needed according to the interviews. There is an urgent need for rapid reforms, in order to calm down citizens and show that the tax reform is just the beginning of further reforms that will benefit the citizens (Samah Baibers). The current situation has created the loss of trust, high unemployment, and political fatigue (Samah Baibers, Samer Alrjoub). The citizens reject the government, and the recurring reshuffles of government lead to increased government instability, ineffectiveness, and lack of successful implementation of policies. This is caused by the lack of rule of law ( Nesreen Barakat, Samah Baibers, Dr. Salma Nims) as well as the lack of checks and balances due to a weak parliament (Dr. Ma'en Alqatamin). The government faces several other problems caused by the recurrent government changes and reshuffles. This results in single-government strategies, which fall with the fall of ministers, lacking permanence and successful implementation (Dr. Ma'en Alqatamin, Samah Baibers). Furthermore, the government falls short on executive direction and implementing strategies and visions, decreasing accountability (Dr. Ma'en Alqatamin, Nesreen

Barakat). According to Samer Alrjoub, the government is “working without any direction on how we can implement any policy”, failing to measure the characteristics and effects of policy action.

Both Dr. Ma’en Alqatamin and Samah Baibers agree that there is a need for proper rulers leading the country; “A citizen needs to be properly governed” (Dr. Ma’en Alqatamin). Instead the citizens feel like they are in a fight against the government, feeling betrayed and cheated by it (Samer Alrjoub, Dr. Ma’en Alqatamin). Samer Alrjoub stresses the lack of trust between the two parties, the people and the government. The feeling of two opposing parties is dangerous and highlights the citizens’ suspicion that the government works against, not for, them. Thus, the government needs to overcome this enmity and suspicion, and create an atmosphere of cooperation and democratic delegation. Samah Baibers connects the lacking direction to the need to improve democratic processes in the country, as especially marginalized groups such as women and youth feel disenfranchised from political processes. Hence, there must be extensive reforms in the political sector in order to reestablish trust in the government.

This includes challenging the current regime, a system of not being willing to confront the existing structures, especially corruption (Dr. Ghassan Omet, Dr. Salma Nims). Dr. Salma Nims states that “The diagnosis of Jordan’s problem is the bloated public sector and the (negative) culture of productivity”. This leads to the assumption that public sector jobs are a right of citizens, influenced by *wasta*<sup>26</sup> and corruption, while the private sector is left to do productive work (Dr. Salma Nims). Appointing educated and qualified heads of public institutions and ministries, instead of keeping the current inefficient system which includes the corrupt allocation of jobs is needed, so that experts can evaluate the specific tasks needed to improve the institutions’ difficulties, improving accountability and efficiency (Dr. Ghassan Omet). These challenges need to be met not only with improving government officials qualifications, but also the role of the public sector as a loyalty tool, which is seen as a privilege that cannot be taken away from people (Dr. Salma Nims, Nesreen Barakat). This creates the inefficiency of the public sector, lack of knowledge, expertise and productive capacity, hampering democratic and economic growth in Jordan.

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<sup>26</sup> “The *wasta* seeks to achieve that which is assumed to be otherwise unattainable by the supplicant. In recent years, *wasta* as intercession has become prominent, particularly in seeking benefits from government (...) On the one hand, *wasta* ameliorates the rigidness of bureaucracy by cutting through duplication and delay. On the other hand, the practice ripples through the economy creating negative effects. *Wasta* interventions can impose hidden costs leading to inefficient behaviours that are becoming so culturally engrained that attempts to counter *wasta* are absorbed by the social system” (Cunningham and Sarayrah, 1993, pp.2/3).

These issues that are internal to Jordan accumulate in combination to external political issues. Jordan faces a lot of pressure as it is dependent on foreign aid and loans. Dr. Salma Nims states that the international donors are “keeping Jordan under the thumb” and she asks what price Jordan will have to pay to gain stability and economic rejuvenation. There is the impression that Jordan is a beggar and “we look down on beggars” (Dr. Ghassan Omet). The statements stress the disadvantages of foreign loans and debt servicing, in which Jordan is obliged to serve outside demands instead of being responsive to its own citizenship. The tight financial situation prevents investments, which are needed in order to restart the circular economy leading to a growth in income. This is connected to the current contractionary fiscal and monetary policies, which exacerbates the already dire economic situation by slowing the economy ( Dr. Ma’en Alqatamin). Jordan has failed to keep up a viable investment context (Dr. Salma Nims), but there is an urgent need to have large investments in order to increase employment and ease the tension on the citizens (Dr. Ma’en Alqatamin, Dr. Walid Al Khatib). Nevertheless, the loans granted to Jordan are used to service debt or pay public sector salaries (Dr. Walid Al Khatib). The resulting shrinking of potential leads to a flight of able Jordanians outside of the country, worsening the situation (Dr. Salma Nims). The underdevelopment of some governorates further causes tension, anger, and frustration (Dr. Salma Nims, Samah Baibers). These economic and fiscal problems highlight the need for wide ranging reforms in these sectors, increasing investments, employment and thus government income in the future.

There is nevertheless criticism of the neglect of financial aid to Jordan for its role in hosting over one million Syrian refugees. The interviewees demand direct support to help Jordan cope with the economic burden, asking the international community to increase their support (Khair Abu Salik, Dr. Walid al Khatib, Samah Baibers). An example of this is the funding of JRP(Jordan Refugee Project), which in 2017 received 2,7 billion US Dollar, which left only 64 % of its needs covered. In 2018, 420 million US Dollar were received, covering only 16,7 % of expenses, causing a shortfall of funding and thus services and aid to the refugees (Samah Baibers). Jordan has to cover these expenses from its own reserves, creating competition for aid and support between vulnerable groups in the kingdom. The competition for tight resources and support create hostility within the citizens and anger about the dire economic outlook. Thus in addition to economic and fiscal reform, different funding mechanisms for the support of the refugee populations must be explored.

Another part of the challenges were connected with the tax administration and how it is associated with the major problems faced by the tax reform. The tax administration lacks resources,



infrastructure, HR, time and transparency (Dr. Walid Al Khatib, Dr. Ghassan Omet, Dr. Salma Nims). Nesreen Barakat describes that: “with complicated systems that are based on an unfriendly attitude, corruption is more likely to happen”. This causes enmity in the companies, creating even more corruption and lack of transparency. The systems to submit taxes and reports are complicated and obscure, which makes involuntary tax evasion and tax errors possible (Dr. Walid Al Khatib). Samer Alrjoub agrees that citizens and companies “face major hurdles” due to incomplete knowledge of the details in the tax law. This can lead to persecution and prison sentences and other serious consequences for citizens and companies. Dr. Salma Nims further specifies that the rule, stating that the second time somebody evades taxes will end in serving prison time, is a trap for women, as they have less access to financial knowledge and networks.

The topic of tax evasion is heated. While some experts argued for tax evasion policies to be stricter, other argued that stricter policies would force companies and individuals out, decreasing the state’s income by tax (Dr. Ma’en Alqtamin, Nesreen Barakat). An important voice to contradict the loosening of the tax evasion policies is Dr. Ghassan Omet, who argues that the problem is that the private sector’s contributions are small because of tax evasion. The focus is especially on the medical and construction sectors, which demand cash payments to evade taxes (Dr. Ghassan Omet, Dr. Salma Nims, Nesreen Barakat). Nesreen Barakat compares the medical sector and the doctors to a mafia, exploiting both people and the government. These voices highlight an important contrast, calling for stricter but more transparent rules as well as better qualified tax administration staff, so that tax evasion is not an option anymore.

This leads the section towards chances, future reform that would minimize unnecessary expenditures such as the bloated public sector while expanding capital expenditures will increase investment and economic growth rates in Jordan (Nesreen Barakat, Samer Alrjoub). Creating a viable and stable economic and political environment will increase its attractiveness to both investors from outside and inside the country. This can create more jobs and growth, referring back to the interviewees stressing that the low rate of growth is one of the main obstacles to economic recovery and thus must be tackled. Dr. Walid Al Khatib and Samer Alrjoub highlight that actually reducing the tax burden instead of increasing it will revive the economy, emphasising expansionary instead of contractionary fiscal policies. This would create increased possibilities to decrease debt and create a more sustainable economy. For this, the interviewees agree that the private sector must be incorporated to advance the Jordanian economy. Nesreen Barakat calls the private sector the “engine of growth” and that incentivising the private sector can reduce the bloated public sector

and reduce the effects of *wasta*. Additional chances may develop in the relationship with outside donors; renegotiations would enable different policies enabling growth. Nevertheless, Samer Alrjoub stresses that in dealing with IMF experts and specialists who speak “the same language as the IMF” should be chosen. This must include revising the usage of the tax revenues, communicating that they will be used for advantages for the citizens and not just to repay debt and pay salaries (ibid.).

The recommendations on reforms are clear. First, the interviewees agree that the tax law needs to be passed quickly in order to make time to work on further economic reforms. This includes decreasing unemployment, increasing growth and minimizing the deficit (Khair Abu Salik). Furthermore, there needs to be reforms to engage and incentivize the private sector to stay in Jordan (Dr. Ma’en Alqtamin, Dr. Salma Nims). Samer Rjoub calls for a revision of the economic incentive plan, which he names a development plan instead. There is a big difference and Jordan does not have the “luxury to spend any money on something that gets us nowhere” (Samer Alrjoub). In addition, incentives to increase women’s economic participation must be implemented and this includes having gender-responsive fiscal policies (Dr. Salma Nims). The current contracting fiscal and monetary policies are aggravating the economic hardship, thus there is rather a need of expansionary policies in this field (Dr. Ma’en Alqatamin). There is a need for wide ranging reform, such as under *Alnahda alwatnia* (the national renaissance), envisioned by PM Al-Razzaz. He specified improvements in rule of law, social support and productivity, the three areas widely mentioned in the section on the challenges of the reform (Dr. Salma Nims). This must include improving social protection and access to quality education, while also enhancing the current state of democracy in Jordan (Samah Baibers). A specific recommendation was given by Dr. Ghassan Omet, he demands that Jordanians working in Gulf countries should be included in income taxation. According to him, this would facilitate a sharp increase in income, which could alleviate the reliance on loans.

This section showed that reforms are urgently needed and that the tax reform itself is only an aspect of the bigger picture. Focusing on these further reforms in a timely manner is crucial to ease pressure on the citizens, while also complying with international donors. It must include long term and sustainable strategies, coupled with political reform, stabilizing the democratic progress in Jordan.

## Challenges, Chances and Recommendations in the Relationship with Citizens

Another layer of challenges arises in the relationship between the government and the citizens.

“Taxation is a duty” (Nesreen Barakat).

But in order for this statement to translate into reality in Jordan, Jordanians must get something in return. That includes transparency, trust and high quality services. The experts agree that none of these are currently existent in Jordan. There is no transparency on how money is spent (Dr. Ma'en Alqatamin, Nesreen Barakat). Hence, citizens do not trust the government, but compare raising taxes to a bag with a hole, which loses everything that is put into it (Dr. Ma'en Alqatamin). Therefore, citizens believe that the money raised by taxation will flow to corruption (Khair Abu Salik, Dr. Ma'en Alqatamin, Dr. Salma Nims). Additionally, there are no high quality services available to Jordanians, e.g. in transport, health, and education. Most interviewees agree that there is no benefit from taxes (Dr. Walid Al Khatib, Nesreen Barakat, Khair Abu Salik, Dr. Ma'en Alqatamin, Samah Baibers, Dr. Ghassan Omet). Furthermore, there are no services expected through taxes – those who pay taxes pay for services in the private sector and do not use the government services, while the poor who do not pay direct taxes, have no or little access to services but cannot afford higher quality private services (Dr. Salma Nims). This is reflected in the fact that more than 30 percent of children are attending private schools – extremely high when compared to international percentages (Dr. Ma'en Alqatamin, Samah Baibers). If instead of paying the fees for private schools, part of this would be used as taxes in order to improve services and reduce youth unemployment, people would be willing to pay (Dr. Ma'en Alqatamin, Samah Baibers). But due to the already high living costs, they refuse.

Most interviewees agree that the citizens are not to blame for the current crisis. This statement might sound obvious to many outsiders, nevertheless the rhetoric revolves around the idea that the citizens do not pay taxes and thus carry part of the guilt for the current situation. The problem builds upon the rent economy that has prevailed in Jordan until now, as well as the social contract that dominated, where citizens did not expect much, as they did not pay taxes. When considering these changes, there must also be a discussion of changing the social contract, in which citizens pay taxes while receiving services from the government. Thus the social contract needs to shift to active citizenship. While most interviewees agree that these challenges arrive because of the citizens, Dr. Walid Al Khatib discusses that during the last round of tax law discussion, the citizens only wanted to protest, but not to discuss. Many citizens feel cheated by the government, mirrored in the drop

of confidence in the government, measured by the CSS (Dr. Ma'en Alqatamin). This escalates with the growing tension with the government, where the citizens do not feel represented by the government but rather that it is the enemy (Samer Alrjoub). Additionally, social problems such as social injustice, corruption and poverty increase the tensions in society (Samah Baibers). Moreover, the poorer classes do not have or are aware of their full rights, thus excluding these classes from political and social life, especially outside Amman (Samah Baibers, Dr Salma Nims). The law especially hits the middle and poorer classes, there is no stable income and a fluctuation above and below the poverty line (Samah Baibers). This can be linked to the unavailability of high quality services.

One of the most important aspects mentioned by almost all interviewees was transparency and clear and honest communication with the public. The media campaign and town hall meetings were a good start, but as Samer Alrjoub is expecting, the new tax reform will entail concealed information, that may trap people because of insufficient knowledge of the aspects. Furthermore, some chances that are built on external factors are the opening of the Syrian-Jordanian border, which could aid the Jordanian economy (Dr. Walid Al Khatib, Nesreen Barakat, Khair Abu Salik). Nevertheless, the effects on the security situation must be calculated, as it may introduce risks to Jordan (Samah Baibers, Khair Abu Salik). Another factor is the role of international donors. While some see the IMF as having an interest in seeing Jordan stable, Samer Alrjoub disagrees in arguing that IMF might worsen the situation by pressing for the current reforms. Both Nesreen Barakat and Samer Alrjoub argue that there should be renegotiation with IMF in order to change the payment plans and economic reforms. Thus, instead of contracting measures, they demand debt substitution through investment and economic opportunities so that Jordan's economy can recover instead of hitting a wall. Further Dr. Salma Nims urges international donors to pressure the government to combat corruption, expand public reform and improve efficiency. These aspects can improve the situation in Jordan, combining internal and external pressure on the government.

These chances are wide and optimistic; nevertheless they are coupled with many challenges faced by the government in implementing this reform and improving the general economic situation in Jordan. Therefore, many of the interviewees agree that the tax law was not the primary reason for the protest, but rather the lack of services, trust and the high costs due to the VAT. These challenges highlight the varied levels of necessary reform and the immense shortcomings of previous government. This has led to a situation in which the governments have no choice anymore than to comply to the demands of international institutions in order to obtain further loans intended to

keep the country in an unsustainable situation. The interviewees are aware that these challenges are major and need to be tackled as soon as possible, as otherwise the national situation will further deteriorate. This section has highlighted the key challenges faced by the tax reform. All interviewees agree that the tax reform itself is only a small part of the picture and that it cannot be evaluated in an isolated manner. Instead, there needs to be awareness of the wider economical, fiscal and monetary reforms needed to improve Jordan's current situation. In order to reach a compromise between donors and citizens, these challenges can be faced. These recommendations are summarised in the next section, before a conclusion is drawn.

Enhancing the democratic process in Jordan encompasses a different relationship with the citizens that must be based on mutual respect and fair treatment, in which both parties treat each other with respect, pride and dignity (Nesreen Barakat). As Nesreen Barakat describes it; it is a natural law of physics, force will produce opposition, and thus forcing the people and ignoring their opinion will never lead to agreement. This includes clear communication, discussion and education (Dr. Ghassan Omet, Nesreen Barakat).

The last section enables us to see why the Jordanian citizens and their government have a troubled relationship. The issues of corruption, lack of transparency and *wasta* have caused mistrust and a feeling of enmity towards the government. Together with the public sector as a loyalty tool, this creates a situation of opposites, which lessens potential of cooperation and increases conflict. The term 'loyalty tool' refers back to the social contract caused by the past rent economy in Jordan. In this contract, public sector jobs were utilized in order to establish loyalties within tribes and parts of society, securing the support of them. Combatting this negative relationship and creating an environment of trust and cooperation will be beneficial to all parts of society in Jordan.

## Recommendations

In this section the study turns to giving recommendations of its own, based on a literature review, the interviews and the comparison of the draft laws. The recommendations are meant to enhance future deliberations, improve taxation and motivate wide-ranging economic and political reform. As in the analysis they are separated into three categories: one on the law itself, one on reforms and one on the relationship with citizens.

### On the Law Itself:

- The June crisis had created a momentum for the new reforms to actually change the burden of indirect taxation. In opposition to the studies by the experts and the government, the new reform will be likely to increase indirect taxation. Therefore, instead of using the momentum to create a conclusive reform, increasing income tax while reducing the indirect taxation, the new reform is angering citizens as well as international donors, as it does not create enough revenue. The recommendation to draw from this is to incorporate conclusive studies into policy making and guaranteeing that these studies are not ignored. Expertise here is key to better policy making.
- The creation of additional burdens on exports and companies, especially with double taxation burdens, might likely slow the economy and decrease investment into Jordan. While tax reform is needed, this must go hand in hand with incentives to investors for infrastructure and Megaprojects, which are likely to increase local employment.
- Tax administration is a conflictual topic. The study is in opposition to most of the interviewees and recommends that stricter tax evasion policies must be implemented. Nevertheless, this must go hand in hand with transparency rules, guidelines and trainings, so that involuntary tax evasion is not a threat to citizens.
- The reform needs to become more gender sensitive. The reform does not acknowledge the differentiated effects on women and other vulnerable groups. Incorporating the protection mechanisms for women about allowances and equalizing rights to allowances, etc, must be part of future tax reforms.

### On Reforms:

- Jordan is in need of wide-ranging reforms in the political, economic and societal sectors. The social contract between citizens and the state must be renegotiated according to the new direct taxation. Direct taxation must be in exchange for quality services in education, healthcare and transport. Renegotiating the new reality will take time and create conflict, but it is crucial to incorporate experts, civil society and government employees to create a transparent process.
- Advancing checks and balances at the political level, in which there is a clear division between the executive, legislative and judiciary branch, has to be introduced. This refers back to Figure 1, shown again below. The branches currently are all interlinked and are

under the ultimate authority of the royal court, creating a rather authoritarian system, with little accountability.

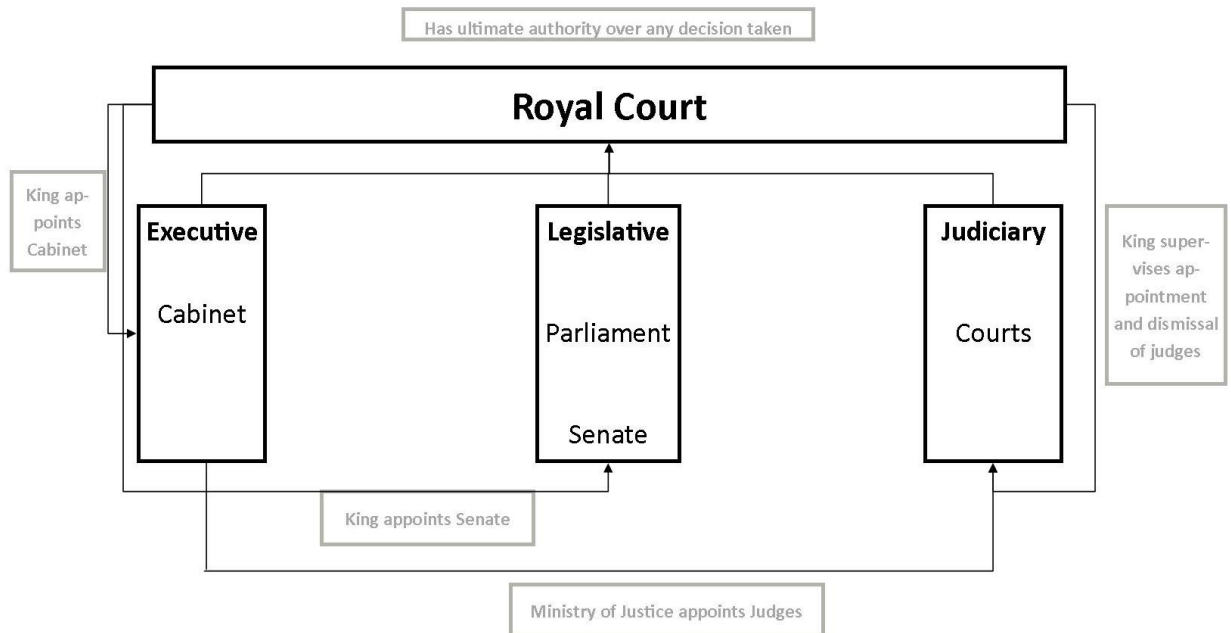


Figure 1 Jordanian Government Branches

- Laws such as the Cybercrime law, discussed in December 2018 in Parliament, which suppress freedom of expression, must be abolished and discussion about topics such as hate speech should be defined in a national dialogue instead of unilaterally imposed.
- Furthermore, Jordan should follow up on the King's wishes to move further towards democratization. An election reform, the strengthening of monitoring bodies and their impact, as well as more education about the importance of political participation must be introduced. School curricula should include political education for young people as a starting point for future engagement. This must also include more economic teaching, which addresses the needs of Jordan in particular and the basics of economic mechanisms.
- Reforms must be based on long term plans and initiatives and not on single governments. Jordan is in dire need to create a more stable policy environment, introducing government-independent plans and sticking to their implementation. These should be developed in a multi-level stakeholder dialogue.
- Economic reforms must be adjusted to self-reliance in the future. This means that there must be more investment into better infrastructure and projects which create jobs, while also repaying foreign debts in order to have a lesser debt burden and have more money

available to government spending. Thus expansionary fiscal policies should be preferred over contracting fiscal policies.

- Public Sector reforms should be introduced in order to reduce the size of the bloated sector. This must be done in conjunction with the private sector, in order to avoid the massive increase of unemployment. Training employees for different jobs, equipping certain authorities with more skilled employees and decreasing the financial burden of the public sector must be top priorities.
- The tax administration must be simplified and more transparent about the exact rules and guidelines. Furthermore, more skilled employees should be hired in order to increase efficiency and support the citizens and companies to adjust to the new reforms and avoid involuntary tax evasion.
- Corruption must be tackled. The public sector as 'loyalty tool' as well as the possibilities of corruption have undermined the trust in the government. This related back to renegotiating the social contract and imposing controls on government officials to decrease corruption.

#### **On the Relationship with Citizens:**

- Increase communication with citizens by using official government channels to inform about any news coming from the government. Press releases and official online communication offers direct transmission, which enhance the standing of the government by increasing transparency.
- Increasing transparency is directly related to increasing communication, as being more transparent with the citizens will increase the level of trust and raise public opinion about the government, which might lead to more stable and sustainable government policies and practices.
- Offer a national dialogue as has been suggested by the King in December 2018, in order to hear out the citizens and engage with them. Incorporating the voices of citizens and their concerns before passing a law will increase acceptance and increase transparency
- Include more expertise in the process, as this will improve the law itself and further reforms as well as the trust with the government. Including experts inside the government and hiring them from outside the government for studies etc. will improve quality, impact and reaction towards much needed reforms.



## Conclusion

This study presented the state of the tax reform in Jordan in 2018. Explaining the political and economic background in Jordan and the current challenges such as dependence on foreign aid, semi-democratic institutions and corruption, aids the understanding of why the events unfolded the way they did in 2018. The timeline of events further specified key dates in the process, before introducing a comparison of the three tax laws. The comparison showed the differences and many similarities, highlighting key aspects that angered the experts and people, such as the random allocation of the tax brackets and increase in personal taxation. The expert interviews then drew light upon the chances, challenges and recommendations about the current law. It underlines the inherent difficulties, e.g. in communicating with citizens, but also in the bloated sector, suffering from *wasta* and corruption. Consulting with these experts, specific changes are requested, such as increasing democratic processes, introducing wide ranging economic reforms to incentivize investment and decreasing the effects of corruption.

This study wants to show the diversity and depth of the topic in Jordanian society. While many outsiders are not able to understand the reasons for the widespread refusal of the tax reform, this study highlighted why the citizens reacted this harshly, while also highlighting that a tax reform itself is needed. The aim of this paper is not to judge but to inform and analyze. The expert interviews enabled a local expertise to tell the story of opposition, chances of success and needed reforms.

The new developments in the end of November and December 2018 are worrying. The King's indirect refusal to sign the law, and having it instead signed by his brother, is symbolic of the sensitivity of the topic. It is significant that the King himself is inevitably giving the masses a push, by being hesitant to endorse the law himself. Public protests have flamed up again, with renewed calls for the resignation of the government. It is important to mention that the protests again symbolize more than the anger about the tax reform, as further issues have surfaced. It is uncertain, if these protests will have similar effects to those in May 2018, but the power of protest should not be underestimated. The Cybercrime law, that was withdrawn on December 2018 from the Lower House just to be amended and reintroduced a day later, is a critical development and has been warned against from civil society and international stakeholders, such as in Jordan's Universal Periodic Review by the UN Human Rights Council. Further corruption cases and the decrease in fuel

quality anger citizens. For the moment, this study highlighted the need for detailed analysis and incorporating different stakeholders into policy deliberations. The much-needed tax reforms will not be in the necessary format, creating further tensions for the future.

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### **About the Author**

Ronja Schiffer is a consultant with FES Jordan and Iraq. She holds an MSc in International Relations of the Middle East with Arabic from the University of Edinburgh, United Kingdom. Her research focusses on political issues in Jordan and the region, with a particular focus upon gender and neo-liberal policies.

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