Chapter 17
The Incidence of Taxes in Jordan

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ABSTRACT

The focus of this chapter is on the incidence of taxes in Jordan. All taxes must ultimately be paid by someone, and one of the most fundamental questions asked by economists is: “Who bears the final burden of a tax?” Taxes cause individuals and firms to change their behaviors, and the resulting changes in product and factor prices will affect the incidence and the distributional effects, of the tax. The answer to the question “Who bears the burden of the tax” requires us to estimate whether or not taxes are regressive; that is, do taxes as a share of income decrease or increase as income increases? This type of analysis is important for a country like Jordan, which is seeking to increase public revenue and encourage economic development. The analysis is also useful as a model for other countries in this important region.

INTRODUCTION AND OVERVIEW

The focus of this chapter is on the incidence of taxes in Jordan. All taxes must ultimately be paid by someone, and one of the most fundamental questions asked by economists is: “Who bears the final burden of a tax?” Taxes cause individuals and firms to change their behaviors, and the resulting changes in product and factor prices will affect the incidence and the distributional effects, of the tax. The answer to the question “Who bears the burden of the tax” requires us to estimate whether or not taxes are regressive; that is, do taxes as a share of income decrease or increase as income increases?

Understanding the incidence of taxes in Jordan is important from several perspectives. Over the past decade, Jordan has seen overall economic growth weaken due to the worldwide financial crisis and associated reduction in economic activity and increased pressure due to a renewed influx of refugees from countries including Syria, Iraq, and Egypt. The tax to GDP ratio has fallen from a high of 20.4 percent in
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2006 to a current level of approximately 15 percent—on par with countries including Egypt and Lebanon (2011) and substantially lower than several middle income countries including Morocco, Turkey, Mexico. The OECD average tax to GDP ratio is 33.8 percent (Timofeev & Wallace, 2013). Increases in current account deficits in the face of the falling tax to GDP ratio have led to calls for Jordan to increase its tax to GDP ratio while maintaining a stable social environment and providing for economic growth.

An analysis of the incidence and distributional implications of the tax system in Jordan can provide useful information with respect to the equity of the system and provide input into tax reform discussions throughout the region. Why is equity a concern? While Jordan is an upper-middle income country, there is a significant portion of the resident population that falls below the poverty line. The Ministry of Planning, Department of Statistics reports that 14.4 percent of the population fell below the poverty line with 4400 JD per year in 2010 (UNDP, 2013). This represents a substantial portion of the population for whom taxes may represent an especially difficult burden.

The poverty level is one measure of income disparity in a country. Another equity-related concept is the distribution of income among population groups. A commonly accepted measure of distribution is the Gini coefficient, which measures the difference between complete equity in income distribution (each portion of the population holds the same level of income) and the actual distribution. A Gini of 0 measures perfect equality and a Gini of 1 measures complete inequality (all income concentrated in one person). The World Bank has published estimates of the Gini coefficient for a large number of countries for various years. A sample of those countries is reported in Table 1. These particular countries were chosen as they represent countries similar in relative geography, income, or economic base and are provided as illustrative comparisons. As seen there, the Gini coefficient in Jordan increased between 2008 and 2010 suggesting a less equal distribution of income. Coupled with the increase in poverty rates, it is important for the Government to consider the impacts of tax reform options on the distribution of tax burdens as they may acerbate tensions over income distribution in Jordan.

In this chapter, we address the following questions and issues in the context of Jordan:

- What is the concept of tax incidence and how is it measured?
- How does the current tax system treat low versus high income individuals?
- Are there imbalances in the distribution of taxes that create a perception of unfairness?
- What does the effect tax rate say about distortionary effects of the tax system on economic behavior?

Table 1. Gini Coefficients

<table>
<thead>
<tr>
<th>Country</th>
<th>2003/04</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jordan</td>
<td>38.9</td>
<td>33.8</td>
<td>-</td>
<td>35.4</td>
</tr>
<tr>
<td>Georgia</td>
<td>40.4</td>
<td>41.3</td>
<td>41.7</td>
<td>42.1</td>
</tr>
<tr>
<td>Indonesia</td>
<td>-</td>
<td>34.1</td>
<td>35.6</td>
<td>38.1</td>
</tr>
<tr>
<td>Macedonia</td>
<td>39.0</td>
<td>44.2</td>
<td>43.2</td>
<td>43.6</td>
</tr>
<tr>
<td>Serbia</td>
<td>32.8</td>
<td>28.2</td>
<td>27.8</td>
<td>29.6</td>
</tr>
<tr>
<td>Turkey</td>
<td>43.4</td>
<td>39.0</td>
<td>38.7</td>
<td>40.0</td>
</tr>
</tbody>
</table>

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