ABSTRACT

Tunisia’s tax system has undergone significant structural reforms over the last several decades. Even so, its structure exhibits some major flaws, shortcomings that spill over to and affect the performance of the overall Tunisian economy. Further, the tax system continues to underperform in some fundamental ways, ways that also affect the rest of the economy. Finally, the structure of the Tunisian tax system has some notable shortcomings. This paper discusses these issues. It presents details of the main taxes, it analyzes several main features of this tax system, and it suggests various specific tax reforms that can be introduced both in the short term and in the longer term.

INTRODUCTION

Tunisia’s tax system has undergone significant structural reforms over the last several decades. Even so, however, its structure exhibits some major flaws, shortcomings that spill over to and affect the performance of the overall Tunisian economy. Further, the tax system continues to underperform in some fundamental ways, ways that also affect the rest of the economy. Finally, the structure of the Tunisian tax system has some notable shortcomings. This chapter discusses these issues. It presents details of the main taxes, it analyzes several main features of this tax system, and it suggests various specific tax reforms that can be introduced both in the short term and in the longer term.

As demonstrated below, the flaws of the Tunisian tax system are many and significant. There are large amounts of tax evasion, with the size of the Tunisian underground economy estimated to be roughly 1/3 of official output. Reflective of this evasion, as well as of the extensive use of fiscal, financial, and other preferences, there is a narrow and shrinking tax base that is subject to especially high tax rates (especially on individuals). There are also significant limitations in tax administration. Contributing to the ineffective tax administration is a tax system that is excessively and unnecessarily complex. There is also a widespread belief that the tax system is both unfair and distorting to individuals and firm, although precise...
quantitative assessments of these inequities and inefficiencies are seldom provided. Overall, it is clear that the current system is an outdated and an ad hoc system, designed for a world that no longer exists.

Given these problems, a comprehensive reform of the Tunisian tax system may well be justified, along the standard lines of broadening the bases of taxation and reducing the rates of taxation. However, comprehensive reform typically takes considerable time and effort. A more immediate strategy would be to enact several incremental reforms that would improve the operation of the Tunisian economy. Potential reform measures include expanding the base of indirect taxes, increasing value-added tax rates, reducing the widespread use of incentives, reducing personal income and/or Social Security contribution rates, reforming the simplified tax system, and improving tax administration. Indeed, the evidence in this paper suggests that tax rates on individuals could be reduced, maybe even substantially, without much fiscal impact. Reducing the overall tax burden on individuals, while shifting to a heavier focus on indirect taxes, is important for encouraging higher rates of formal sector job creation.

The next section describes the current Tunisian tax system in some detail. The following sections compare Tunisian tax practice to international practices and analyze some of the main effects of these taxes. The final section presents some issues that need to be considered in any possible reform of the tax system.

BACKGROUND: THE TAX SYSTEM IN TUNISIA

The Tunisian tax system can be divided into two major categories: direct taxes (including the corporate income tax, the personal income tax, and payroll taxes) and indirect taxes (e.g., the value added tax and consumption duties). The tax system includes the following taxes:

- Customs Taxes.
- Value Added Tax.
- Consumption Duties.
- Personal Income Tax.
- Corporate Income Tax.
- Registration Taxes and Stamp Duties.
- Various Taxes on Certain Products, Transportation, Insurance, Hotels, and the Like.

Even aside from the individual income tax, the government imposes a variety of taxes on the wages of workers. Some of these taxes are more properly viewed as “contributions” because individuals are entitled to benefits, the size of which varies with their contributions. Some may also be seen as a way to force people to save for old age or for insurance against health problems and occupational injury. Several have all the features of a tax, but nevertheless do not go into the general revenues of the government and instead are used to finance government and non-government provision of social insurance. In total, these various payroll taxes (or “Social Security contributions”) constitute a significant additional burden on labor.

Since 1988, the Tunisian tax system has undergone a series of reforms as part of broader structural reforms in different economic sectors and financial companies. These reforms have affected all types of taxes. Overall, following broad principles of “best” international practices, tax rates have been reduced, tax bases have been broadened, incentives have been streamlined, and various administrative procedures