



FISCAL JUSTICE IN TUNISIA, A VACCINE AGAINST AUSTERITY

Oxfam in Tunisia takes stock of inequalities in Tunisia which were exacerbated by the coronavirus pandemic. It gives recommendations to revamp the tax system and fiscal policies so they perform their function of income and wealth redistribution.



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EXECUTIVE SUMMARY

The coronavirus has revealed several failures in the health system and more generally in Tunisia's socio-economic model. These failures stem from decades of structural adjustment and austerity policies that have been encouraged since the 1980s by International Financial Institutions. Thus, the gradual withdrawal of the State from certain essential sectors such as health and education for the benefit of the private sector and the unjust fiscal system have consolidated the foundations of structural inequalities in the country. The pandemic has made these inequalities more salient and added systemic, albeit not incurable, problems.

Tax justice is, according to Oxfam, a substitute for austerity and one of the essential remedies against inequality in Tunisia. It is the guiding idea of this report which examines the multiple socio-economic challenges faced by the country that are likely to worsen in the aftermath of this unprecedented health crisis. Austerity policies that Tunisia went through rendered the country more vulnerable and less resilient to possible shocks, whether endogenous or exogenous. They are also in contradiction with the principle of fiscal justice enshrined in the Constitution of 2014. Without strong and immediate economic measures, inequalities are likely to widen further. It is therefore a matter of advocating for fiscal policies that ensure the universality of basic quality services to all, such as health, education and social protection.

In Tunisia, inequalities are diverse and multidimensional. In 2017, the richest **10%** held more than **40%** of the national income, compared to only 18% for the poorest half of the population. Public services in essential vital sectors aim to cushion the shocks that could hit the most vulnerable people in a society, and to contribute to more social justice. Driven by austerity policies encouraged in Tunisia by the International Monetary Fund (IMF), the share of education and health spending in the public budget fell sharply between 2011 and 2019 from **26.6%** to **17.7%** for education and from **6.6%** to **5%** for health. A direct consequence of the public finance control directive has been the fall in the provision of these services and their quality; for lack of means, the latter is no longer able neither to reach nor protect the poorest which resulted increased poverty.



The territorial divide which separates the coast from the rest of the country is indicative of great development disparities. A resident of Tataouine, the most affected region by unemployment (**28.7%**), is three times more likely to be unemployed than a resident of Monastir (**9.1%**) in 2019. Regarding access to public services, the situation is equally worrying. Similarly, in terms of health services, Tunis has 10.2 intensive care beds per **10,000** inhabitants compared to 0 beds in Tataouine, Gafsa, Sidi Bouzid and ten other regions of the country. The status of “victim region”, which is recognized now under the transitional justice law, exemplifies the extent of this fracture and the feeling of injustice that runs through these interior regions which are truly left behind by the country's economic and social development.

Some forms of inequality, such as gender inequality, are less apparent. If access to jobs remains difficult for graduates and young people, it is even more challenging for women. In 2019, women's unemployment rate is double that of men (**21.7%** compared to **12.1%**). Even though women are an essential pillar of the Tunisian economy, they are still exercising (in addition to paid employment) a work that often remains invisible and unpaid (such as domestic and care work). As such, women's time spent on unpaid care work is 8 folds that of men's.. This is also linked to the decline in public services affecting women the most.

In order to encourage a better redistribution of wealth and opportunities, it seems necessary to reform the Tunisian fiscal system. Indeed, taxes weighs disproportionately on the middle class and the poor for the benefit of the wealthiest in society. This system is shaped by the neoliberal vision of the international financial institutions which encouraged liberalizing the Tunisian economy through far-reaching structural adjustment plans since the 1980s. This encouraged the development of the private sector to serve the wealthiest, at the expense of essential quality public services accessible to all. These liberalization policies consist of making indirect taxes prevail and reducing the cost of capital. They are the clear and explicit expression of an unequal system through a tax burden which weighs disproportionately on all Tunisians regardless of their income. For example, in 2018, indirect taxes (VAT, consumption and customs duties and other taxes) together represented almost two-thirds of the collected contributions.

When it comes to direct tax, the personal income tax (PIT) represents the second source of tax revenue after the value added tax (VAT). Several tax reforms implemented since the 1990s and confirmed by the 2017 finance law have eroded the progressivity of the PIT in favour of the highest income categories. Unequal treatment is also deplorable. Tunisian citizens, not all having the same status, are not all fairly treated in terms of tax. While employees are fully subject to it, other categories of self-employed workers falling under the flat-rate scheme contribute little or not at all. They bring in an average of 0.2% of tax revenue. Capital income is also less taxed than labor income and is subject to a proportional rate of 10%.

Finally, it is unacceptable that the tax effort between households and businesses is not better distributed and that Tunisian companies benefit from numerous tax incentives while today they contribute only up to 11% to the country's tax revenues. In fact, during the ten years preceding the revolution (2002-2011) the average tax incentive represented 70% of corporate income tax (CIT) revenues. In addition, the IMF estimates that the cost of tax expenditures in 2016 was around 1.8% of GDP, which is higher than the public health budget (1.8% of GDP), and the exceptional measures taken to deal with the coronavirus constitute **1.8%** of GDP.

Faced with this situation, the tax administration reports a serious lack of human and material resources which reflects in a faulty tax audit that is incapable to restrain fraud. Indeed, the advisor to the previous Prime Minister in charge of tax reform said that tax fraud is estimated at **25 billion dinars**, or **24%** of GDP. It is estimated that in a scenario where the government would recover 10% of this amount, we could have increased the budget dedicated to health by **116%** (more than double); while a recovery of **25%** of this fraud would have allowed the government to increase spending dedicated to the coronavirus response by almost **350%**.

Since 2014, corporate tax revenues dropped off, which resulted in creating a significant gap with PIT revenues. Tax revenues from net worth tax, dividends and inheritance are even lower. The net worth tax represents only 0.3% of these revenues. All these elements confirm the bias of the Tunisian tax system in favor of capital and the wealthiest.

Nevertheless, Oxfam is convinced that it is possible to make Tunisian taxation a real instrument for the redistribution of wealth, particularly in the current context of the pandemic, and therefore makes the following recommendations:

IMMEDIATE MEASURES TO DEAL WITH THE IMPACT OF THE CORONAVIRUS:

Overcoming this pandemic implies the implementation of emergency measures that make it possible to contain the drop in public revenues through solidarity taxes as well as reducing the debt burden. The income generated could be allocated to the most vulnerable households.

- The urgent establishment of a progressive wealth tax to generate income to finance the response to the current crisis.
- Make a request to foreign creditors of Tunisia, including international financial institutions, to cancel the debt payments for the years 2020 and 2021
- Increase cash transfers to the level of the minimum wage and extend it to the most vulnerable workers.

BEYOND THE COVID 19 CRISIS, MEASURES FOR RECOVERY AND FAIR AND EQUITABLE STRUCTURAL TAXATION

A deep reform of the tax system is necessary if we want to build a fairer social model.

CRUCIAL SOCIAL POLICIES

- Turn the page on austerity policies and develop fairer alternative political proposals.
- Increase public spending in the health sector to reach at least 5% of GDP.
- Develop a system of social and universal protection.

TOWARDS A REFORM OF THE TUNISIAN TAX SYSTEM

- Better distribute the tax effort between different income groups, instate and increase tax on wealth and capital in its different forms.
- Reduce the use of indirect taxation (in particular the use of VAT) .
- Improve the collection and the progressivity of PIT .
- Strengthen the efforts against tax fraud by allocating more resources to the administrations concerned.
- End unproductive tax incentives.