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country report

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The Jordanian 2019 Income Tax Law

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A new Jordanian income tax law and its previous drafts sparked large protest starting in May 2018. As the new provisions within the law only directly affect around 10% of working Jordanians, they can hardly be understood to be the sole reason for the popular anger. Instead the law came in a context of steep price hikes, high poverty rates and a widespread feeling that government corruption prevents efficient use of taxpayer money. This country report looks at the new income tax law and its provisions; it highlights the challenges to the law and notes that it has brought to the open wider social discontent that is being expressed through an attitude of non-cooperation towards the government.

When the Jordanian government proposed a new Income Tax Draft Law in the end of May 2018, which, in accordance with demands from the IMF (International Monetary Fund), raised taxes and reduced tax exemptions, public protests broke out against it. While the majority of low-income workers were going to be hardly or not at all affected by the new law (previously only the top 4.5% of wage earners were paying taxes, after the law the top 10%)¹, it was the trigger for people to voice their discontent with the overall situation in the kingdom. With the Jordanian economy being in a dire state – low wages, high prices, high unemployment (18.6%) and a public debt of over 94% of the GDP – many people claimed that the government was inefficient and corrupt and thus partly responsible for the economic situation of the country and its people and that it was only trying to enrich itself further through the new income tax law by taking from hard-working, struggling citizens.

After sustained protests in mid-2018, supported by a broad base of the population, the King was forced to respond by postponing the introduction of the new tax law, replacing the unpopular Prime Minister Hani Mulki with Omar Razzaz, and reshuffling the government. While these measures did succeed in appeasing the people up to a certain extent,

and the protests' magnitude did markedly decrease, weekly anti-government protests (though no longer directly related to the law) have since been continuing, albeit smaller, and discontent voiced in social media has by no means decreased.

After a series of cosmetic changes to the law, designed to show that the government had taken the protesters' concerns seriously, it was passed by parliament in November 2018 and finally came into effect on January 1st 2019. The Income Tax Law and whether it will actually work to relieve Jordan's economic woes, is controversial.

The Jordanian Economy and its Problems

The economic situation in Jordan is very worrying. Unemployment stood at 18.6% in the fourth quarter of 2018, economic growth remains weak at about 2%² and the public debt is high, constituting 94.4% of the estimated GDP with a number of JD28.6 billion (ca. € 36.3 billion). While people make do with an average wage of 300 JOD (ca. € 380), the price level in the kingdom, and especially in the capital Amman, is exceptionally high. In 2018, Amman was ranked as the most expensive Arab city and the 28th worldwide by the

¹ Jordan Times, May 19th 2018, (<http://www.jordantimes.com/news/local/income-tax-law-amendments-aim-limit-tax-evasion-expand-taxpayers-base%E2%80%99>)

²IMF 2019 (<https://www.imf.org/en/News/Articles/2019/02/07/pr1934-imf-staff-reaches-agreement-on-policies-for-the-completion-of-the-2nd-review-of-jordans-eff>)

Economist Intelligence Unit.³ Moreover, Jordan has been hosting hundreds of thousands of Syrian and Iraqi refugees (official numbers put its refugee population at roughly 760 000⁴, but unofficially, the number is estimated to be double that). This has put Jordan's infrastructure and housing market, as well as its labour market under pressure. Jordan is a resource-scarce country and has always been severely dependent on foreign aid, which makes its economy very vulnerable to the regional and global political situation. When Jordan's GCC (Gulf Cooperation Council) allies (Saudi Arabia, UAE, and Kuwait) failed to renew a five-year financial aid programme worth \$3.6 billion which had ended in 2017 (according to some rumours, as a way to bully Jordan into refraining from criticising the US decision to move its embassy to Jerusalem), this was detrimental to the Jordanian economy and caused its debt to spiral. Moreover, Jordan's economy has suffered since the beginning of the Syrian crisis from a loss of export markets in its neighbouring countries and the tourism industry, too, has suffered because of the regional turmoil. Another strain on its economy was the fact that Jordan's gas supply from Egypt, which it had relied on for many years, was disrupted in 2011 after a series of terrorist attacks on the pipeline, causing the energy costs to rise dramatically (a 60% increase in the cost)⁵. In 2016, Jordan received a \$723 loan from the IMF, aimed to lower public debt, which had risen by a third in the previous 5 years, and increase growth.⁶

The New Income Tax Law

The Income Tax Draft Law, which turned out to be a trigger for people to voice their discontent with the government and economic situation in general, was a requirement by the IMF. A \$700 million programme had been signed by Jordan and the IMF in 2016, the aim of which was to reduce Jordan's exceptionally public debt to safe levels and to stimulate the economy. The controversial law was thus part

of fiscal reforms under the programme and a requirement for the second review of the economy under the EFF (Extended Fund Facility) programme.⁷ According to the IMF, the new income tax law is an improvement to the previous system as it widens the tax base while at the same time protecting the middle and low-income classes. Moreover, it is intended to close loopholes and reign in tax evasion, while protecting specific sectors and removing non-WTO-compliant export subsidies.⁸ The bill had been intended to generate JD300 million (ca. €380 million) in additional revenues in 2019, but after the amendments to ensure it was going to be passed, it may only be capable of generating JD200 million (ca. €253 million) in additional revenues.⁹

The main part of the additional revenue is supposed to come from expanding the taxpayers' base from around 4.5% of the citizens to 10%, meaning that the large majority of the citizens will still be exempted from paying any income tax. This means, that the vast majority of the Jordanian citizens are not or only indirectly affected by the law. For people whose annual income is less than JD300,000 (ca. €380,000), tax will be collected in the following way. The personal exemption from the income tax used to be JD12,000 (ca. €15,200) annually under the previous law and this was reduced to JD9,000 (ca. €11,400) in the Draft Income Tax Law, which was then amended to JD10,000 (ca. €12,700) in 2019 to go down to JD9,000 in 2020.¹⁰ That means that the first JD10,000 (in 2019) earned a year are not taxed at all. As a result, people earning less than JD750 (ca. €950) a month (JD833,33 in 2019 and JD1000 previously) do not pay any tax. Any amount above that is taxed according to the following ratios. The first additional JD5000 will be taxed with 5%, the next JD5000 with 10%, then 15% and then 20%. Any

⁷ EFF (Extended Fund Facility): When a country faces serious medium-term balance of payments problems as a result of structural weaknesses that require time to address, the IMF can assist with the adjustment process under the EFF.

(<https://www.imf.org/en/About/Factsheets/Sheets/2016/08/01/20/56/Extended-Fund-Facility>)

⁸ IMF 2019

(<https://www.imf.org/en/News/Articles/2019/02/07/pr1934-imf-staff-reaches-agreement-on-policies-for-the-completion-of-the-2nd-review-of-jordans-eff>)

⁹ Jordan Times, 19.11.2018

(<http://jordantimes.com/news/local/%E2%80%98new-income-tax-trigger-decline-expected-revenues%E2%80%99>)

¹⁰ Ernst&Young 2018

(<https://taxinsights.ey.com/archive/archive-news/jordan-amends-income-tax-law.aspx>)

³The Economist Intelligence Unit 2018, "Worldwide Cost of Living Survey"

⁴UNHCR 2019 "Factsheet on Jordan"

<https://reliefweb.int/sites/reliefweb.int/files/resources/67841.pdf>

⁵ Reuters, 30.01.2012 <https://www.reuters.com/article/energy-jordan-electricity-idAFL5E8CU35A20120130>

⁶Reuters, 24.08.2016 <https://www.reuters.com/article/us-jordan-imf-idUSKCN10Z2HN>

amount exceeding JD300,000 is taxed with 25% and for those whose annual income exceeds JD1 million the tax will be 35%. Previously, citizens had been taxed 7% on the first JD10,000 earned, 14% on the next JD14,000 (ca. €17,800) and 20% on amounts exceeding JD20,000 (ca. €25,400). Other measures of the New Income Tax Law for instance include gradually increasing the corporate income tax rate from a previous flat tax of 14% to 20% in 2024. The agricultural sector, which used to be tax-exempt will now be subject to a tax of 20% (net income exceeding JD50,000 (ca. €63,500) will be taxable).

A single person earning JD1000 (ca. €1300) a month, what is considered a comparatively high salary in Jordan, would have previously paid no taxes and under the new law will pay JD12.50 (ca. €15.80) per month in taxes in 2020. Someone earning JD2000 (ca. €2500) a month would have previously paid JD81.67 (ca. €100) and under the new law will pay JD125 (ca. €160) per month in 2020. According to the IMF, only the top 8% of income earners will pay taxes under the new law (meaning that 92% of people in Jordan earn less than JD750 a month).

They also argue that the new law rebalances the burden of adjustment from consumption tax (which hurts the poor and middle class) towards those who earn more and therefore are more able to pay.¹¹

Challenges to the Income Tax Law

However, despite the expansion of the taxpayers' base and the increase in income tax, there is concern among some experts that the income tax bill will not actually help Jordan's economic problems but rather worsen them. This is due to the increase of the corporate income tax rate (from 14% to 20% in 2024). The increase in taxation could increase the pressure businesses and sectors which in response will increase prices meaning that consumers will be affected indirectly by the law. Moreover, more people may move their business to the informal sector to avoid taxation or move their business abroad. Tax evasion in general, even though it is meant to be tackled and reduced by the new tax law, may actually increase because the higher taxes increase the incentive to evade them.

¹¹ IMF 2019 "Key Questions on Jordan" (<https://www.imf.org/en/Countries/JOR/FAQ>)

Economists argue that in every previous tax law, tackling tax evasion in order to increase revenues was named in the law, and yet it never made it difference. Corruption is also named as one of the main issues to be tackled in Jordan's economy.¹²

Moreover, export subsidies that were found to be non-WTO-compliant were removed under the new law. Jordan had previously been granted three extensions by the WTO to phase out its export subsidy¹³ (in the form of income tax exemptions for revenue generated from exports) and to finally eliminate it in December 2018.¹⁴ Naturally, this reduces the incentives for exporting Jordanian products, which is also likely to have a negative effect on Jordan's economy.

This suggests that while the new income tax law may in the short-term increase revenues, it remains to be seen whether it will also succeed in strengthening the economy and decreasing unemployment in the medium and long-term.

Popular Opposition to the Law

Opposition to the Income Tax Law stemmed from a variety of issues and a range of groups in society. The law itself is often conflated with other issues, especially the economic problems, facing the kingdom. The proposition and introduction of the New Income Tax Law has to be seen in the context of steep price hikes, tax increases and elimination of subsidies in the months and years before, that particularly affected the lower and middle classes. For instance, the subsidy on flour, which had been considered a main part of the social contract between the citizens and the government, had been eliminated in January 2018, nearly doubling the price of pita bread. Many people were and are thus dissatisfied with the domestic situation, the lack of opportunities and the high unemployment. Even among those Jordanians that have jobs, many are underemployed. The Jordanian population is overall very educated, with over 30% of men and 40% of women between 19

¹² Interview with Dr. Maher Mahrouq, director of the Jordan Chamber of Industry, on March 28, 2019

¹³ UK Parliament Records (<https://publications.parliament.uk/pa/cm201516/cmselect/cmeuleg/342-xxiii/34216.htm>)

¹⁴ US Department of State 2018 "2018 Investment Climate Statements: Jordan" (<https://www.state.gov/reports/2018-investment-climate-statements/jordan/>)

and 23 attending universities¹⁵, yet a common starting salary for somebody with a degree in engineering is between JD300 and JD400 (between ca. €380 and €500). There is widespread dissatisfaction with what the people perceive as a corrupt and inefficient government that is, in their eyes, 'stealing' from the citizens and has government officials enriching themselves rather than spending the tax money on the people and the country. People often argue that they would happily pay higher taxes if only the government were to use them properly and provide adequate public goods and services in return, such as good infrastructure and public education and healthcare.

Moreover, while only a small minority of people is actually directly affected by the law, the protests against it encompassed a cross section of society and popular support for them was widespread. It seems, people were really protesting against the idea that the government should solve its fiscal problems by taking more from the citizens instead of governing more effectively or finding other ways of revenue, rather being worried about the effect of the law itself. Additionally, it is likely that many did not quite understand the exact terms of the law and instead argued that they already had so little and now the government wants to take even more, thus disregarding the fact that the people that earned very little would not be affected by the law). Overall, it can be seen that the opposition to the tax law stemmed primarily from dissatisfaction with the performance of the government in general and its failure to restore the Jordanian economy and solve the unemployment problem and the people were thus conflating the Income Tax Law with a variety of other issues.

Conclusion and Outlook

While after the implementation of the Income Tax Law, protests against the law itself quickly subsided, it appears what it had triggered – the public discontent with government performance brought to the fore – is not going to subside any time soon as the people will not be content unless the economic situation improves palpably. This is evident from the

continuous weekly anti-government protests in the capital, as well as from the increased public criticism of not only the government but even the monarchy itself, especially on social media.

Therefore, despite the fact that the Income Tax Law probably won't have the detrimental effect on people's spending power and thus the economy that the protesters worried about, it is clear that more needs to be done to lead Jordan's economy onto a path of sustainable growth. Economists mention, for instance, the tackling of Jordan's labour market segmentation (lower-skilled jobs are primarily carried about by the approximately 1.5 million foreign workers in Jordan, while hundreds of thousands of educated Jordanians move abroad for work), as well as the need to increase exports significantly in order to stimulate the economy and increase Jordan's trade balance.

At the same time, it is important to keep in mind that there is only so much Jordan itself can do to improve its economic and fiscal situation. Its unstable geopolitical surroundings, the loss of export markets and vital trade routes linked to that, as well as the large number of refugees it is hosting, are also amongst the causes of the economic decline in recent years.

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¹⁵ QS Asia News Network 2017 "Higher Education in Jordan: history, present status and future" (<https://qswownews.com/higher-education-in-jordan/>)

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