

Evaluation of the effects of tax incentives granted to individual entrepreneurs: case study within the tax administration of the wilaya of Tizi Ouzou

تقييم آثار الحوافز الضريبية الممنوحة لأصحاب المشاريع الفردية: دراسة حالة في إدارة الضرائب بولاية تيزي وزو

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Abstract

This study examines the influence of tax incentives on the growth of individual entrepreneurship in the Tizi Ouzou region. The purpose is to assess the balance between economic stimulation and pressure on the state budget. The methodology combines a theoretical-regulatory approach to the status of auto-entrepreneur and a quantitative analysis of tax data collected from the local administration. The results reveal a positive correlation between tax incentives and growth in the number of auto-entrepreneurs. However, they also reveal a significant drop in tax revenues, weighing on the state budget. It highlights the need to redefine and adjust tax policies to optimize the balance between support for entrepreneurship and budget stability.

Keywords: Tax benefits, auto-entrepreneurs, incentives, budget, tax revenue

JEL Classification Codes: H20, H21, H22, H2.

ملخص:

تبحث هذه الدراسة في تأثير الحوافز الضريبية على نمو ريادة الأعمال الفردية في منطقة تيزي وزو. والهدف من ذلك هو تقييم التوازن بين التحفيز الاقتصادي والضغط على ميزانية الدولة. وتجمع المنهجية بين مقارنة تنظيمية نظرية لحالة المقاتل الذاتي والتحليل الكمي للبيانات الضريبية التي تم جمعها من الإدارة المحلية. وتكشف النتائج عن وجود علاقة إيجابية بين الحوافز الضريبية والنمو في عدد أصحاب المشاريع الحرة. ومع ذلك، فقد كشفت أيضًا عن انخفاض كبير في الإيرادات الضريبية، مما يشكل ضغطًا على ميزانية الدولة. وتبرز الحاجة إلى إعادة تحديد وتعديل السياسات الضريبية لتحسين التوازن بين دعم ريادة الأعمال واستقرار الميزانية.

كلمات مفتاحية: المزايا الضريبية، المقاتل الذاتي، الحوافز، الميزانية، الإيرادات الضريبية

تصنيفات JEL : H20, H21, H22 , H2.

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INTRODUCTION:

The world has seen many developments in recent years that have had an impact on the economy, prompting countries to adopt a new approaches based on knowledge and creativity to ensure the growth of national and local economies, by adopting the idea of the self-entrepreneur. Because of the role they play in the economy, countries have paid particular attention to them, urging their governments to adopt policies to support and encourage investment. Algeria, among these countries, has put in place an investment support policy by creating a new ministry known as the "Ministry of the Knowledge Economy, Start-ups and Micro-businesses", in addition to granting them several tax incentives to facilitate their growth and achieve the desired objectives in all areas.

- **Problem Statement**

It is pertinent to ask : *To what extent do the tax benefits granted to self-entrepreneurs contribute to the transformation of Algeria's economic fabric?*

- **Objectives**

This study aims to:

- Identify the fundamental concepts of auto-entrepreneurship and the support structures in Algeria.
- Highlight the most significant new tax privileges granted to auto-entrepreneurs to encourage investment.
- Clarify the conditions for benefiting from these tax incentives.
- Assess the effectiveness of tax incentive policies in stimulating the creation of sole proprietorships.

- **Importance**

Algeria faces the challenge of transitioning from an economy heavily reliant on natural resources to a diversified, knowledge-based economy. In this context, the self-entrepreneur is pivotal to development and local economic growth.

- **Methodology**

This study employs a descriptive approach to present the theoretical concepts and an analytical approach to examine statistics and figures related to the adoption of auto-entrepreneur status in the Tax Department of the Wilaya of Tizi Ouzou

The study is organized as follows:

1- Legal and regulatory framework for auto-entrepreneurs in Algeria

Algeria is committed to transitioning to a sustainable and globally competitive economy, which necessitates strengthening local entrepreneurship. The concept of "entrepreneurship," particularly the role of the "self-entrepreneur," has been introduced as central to sustainable development.

1-1- Legal framework for auto-entrepreneurs

1-1-1 Definition

An auto-entrepreneur is defined as an individual who independently establishes and manages a business with a high degree of autonomy.

Algerian law specifies that auto-entrepreneurship is a regime aimed at individuals who engage in a professional activity independently and whose annual income does not exceed 5 000 000 DA. (la loi n°22-23, art 09, 2022)

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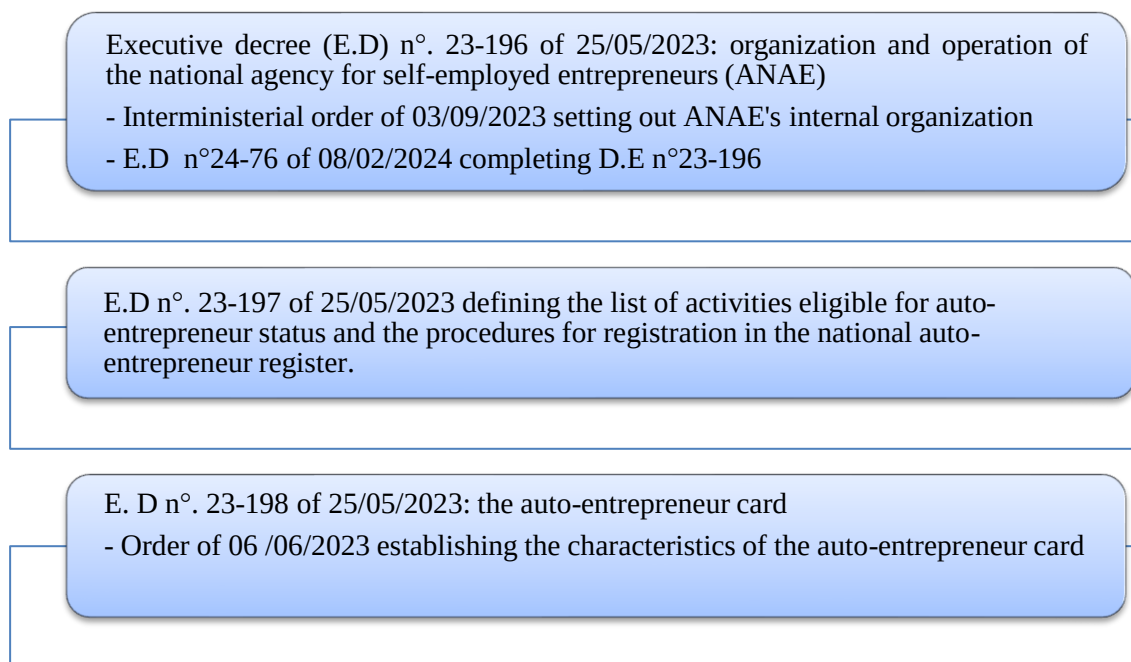
According to the definition given, key characteristics of auto-entrepreneurs include independence, initiative, creativity and risk management.

characteristics of the auto-entrepreneur			
Independence: auto-entrepreneurs enjoy the independence and freedom to work at their own pace.	Initiative: Self-entrepreneurs identify opportunities and take the initiative to make them happen.	Creativity: Self-employed entrepreneurs can come up with new ideas, innovative approaches and unique solutions to problems.	Risk management: Self-employed entrepreneurs are prepared to take calculated risks

1-1-2 Texts governing auto-entrepreneur status

A specific legislative framework, Law No. 22-23, promulgated on December 18, 2022, governs auto-entrepreneurship, outlining the rules and conditions for engaging in this activity and implementing texts have been drawn up to ensure its effective application.

Diagram (1): implementing regulations governing the status of auto-entrepreneur in Algeria



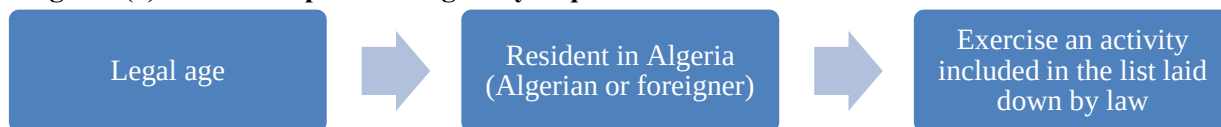
Source: compiled by us

1-2 Regulatory framework

1-2-1 Conditions of eligibility to operate as an auto-entrepreneur

Access to the auto-entrepreneurship scheme is subject to a set of specific criteria that the individual must satisfy. These prerequisites, established by the legal framework, determine an individual's eligibility for this special status. (la loi n°22-23, art 09, 2022)

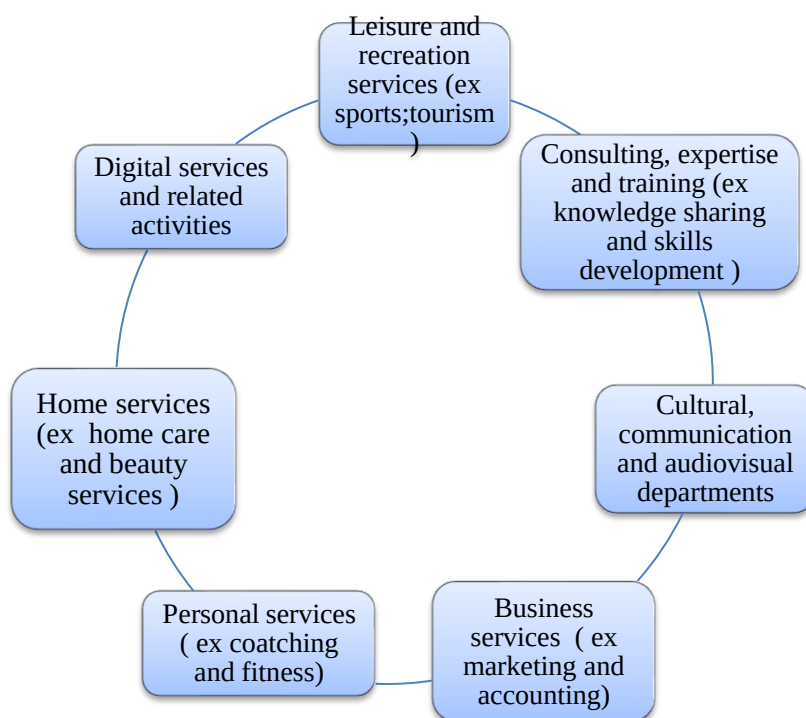
Diagram (2): auto-entrepreneur eligibility requirements



Source: <https://www.anae.dz/>

The regulatory framework includes a taxonomy of eligible professions, distributed across seven categories. (D.E n°23-197, art 02, 2023)

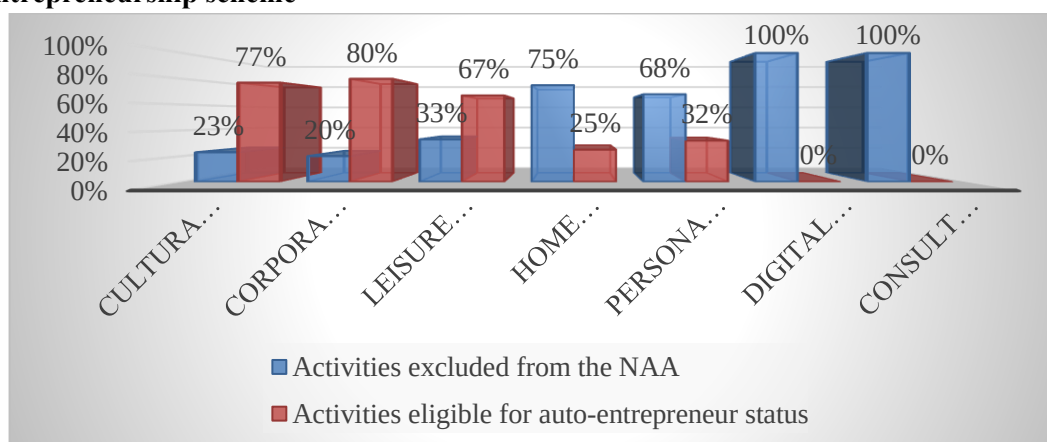
Diagram (3): Professions eligible for the auto-entrepreneur scheme



Source: <https://www.anae.dz/>

The graph below shows the proportion of these activities by field, as classified by ANAE and according to the Algerian Nomenclature of Activities (NAA).

Figure (1): Quantitative analysis of the sectoral breakdown of professions accessible under the auto-entrepreneurship scheme



Source: compiled by us , using data from the two website: NAA and ANAE.

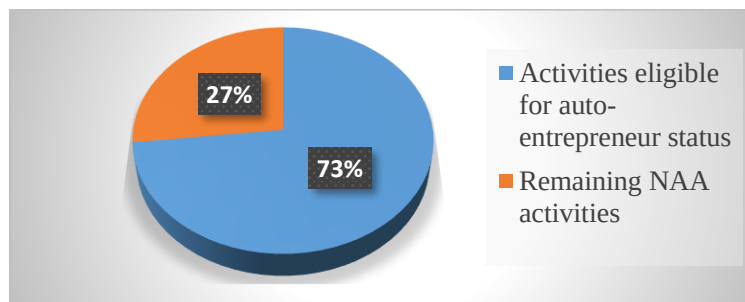
A closer look at the graphical representation reveals a particular distribution of professional activities within the seven categories making up the scope of application of the auto-

entrepreneur status. It is noteworthy that these activities do not constitute an innovative set of businesses emerging from the informal sector, but rather correspond to professions already listed in the national repository of Algerian economic activities.

This configuration raises questions about its potential repercussions on the national economic fabric. Indeed, such a structuring could have significant effects on the country's economic growth dynamic, possibly even slowing it down.

Notably, some professions, such as liberal professions, trades subject to special regulations, and the handicraft sector, are excluded from this scheme. (D.E n°23-197, art 02, 2023)

Figure (2): Analysis of the sectoral breakdown of professions accessible under the auto-entrepreneur scheme



Source: compiled by us , using data from the two website: NAA and ANAE.

The accompanying graphic illustration offers a quantitative perspective on the composition of the various occupational categories. This visualization highlights the relative distribution of the various sectors of activity, excluding certain specific categories.

1-2-2 Institutional infrastructure for the development of self-entrepreneurs in Algeria

Institutional Infrastructure Algeria has established the "National Agency for Auto-Entrepreneurship (ANAE)" to support and regulate individual entrepreneurial initiatives.

According to article 5 of E.D n°23-196, ANAE's remit revolves around several strategic areas:

- *Maintain a centralized directory of self-employed workers*
- *Manage a digital interface to facilitate recording.*
- *Support and control for these individual entrepreneurs.*
- *Regularly adapt the catalog of professions accessible under this status, in line with economic developments.*
- *Issue an official document (card) certifying auto-entrepreneur status, valid for five years.*

2- Tax system for self-entrepreneurs in Algeria

The government has created a special tax regime that offers several privileges to help stimulate economic growth and achieve sustainable development.

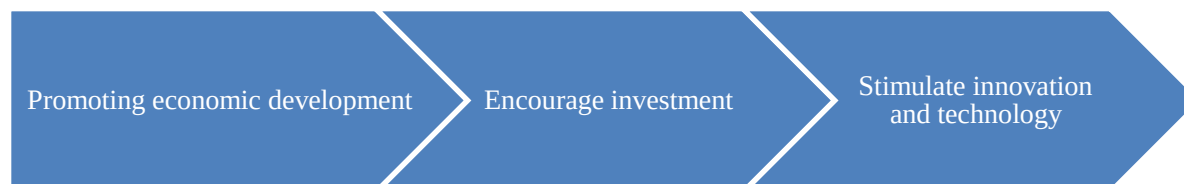
2-1 What is a tax incentive?

2-1-1 Definition of tax incentives

Incentives can be defined as: "A special, non-mandatory measure taken by the State in accordance with its economic policy, in order to obtain from the economic agents targeted a certain behavior by directing their interests to invest in fields or regions in which they had not previously thought of establishing investments, in exchange for the benefit of a specific

privilege or privileges, and these incentives may take the form of a tax exemption or reduction, i.e. a reduction in the amount of tax in return for compliance with certain conditions such as the reinvestment of profits, for example." (صالح بزة، 2022)

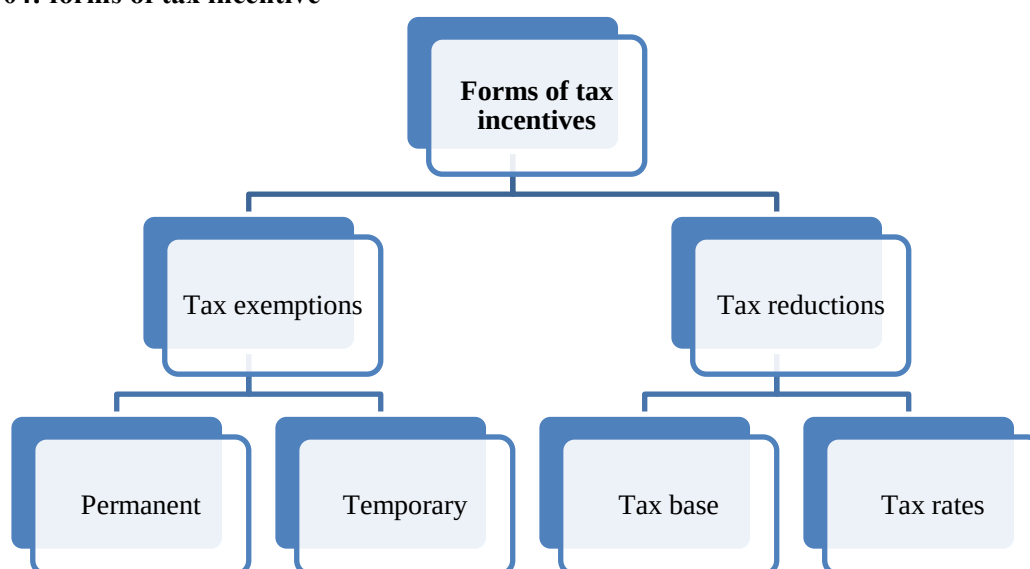
The key objectives of the incentives are as follows:



2-1-2 Forms of tax incentives

Tax incentives are indirect financial assistance provided by the State to investors. These benefits can take a variety of forms, including tax breaks. These include total or partial tax exemptions, as well as reductions in taxable amounts: (المجيد، 2005)

Diagram n°04: forms of tax incentive



Source: compiled by us (عززي، 2015)

2-2 Incentives for self-entrepreneurs in Algeria

The auto-entrepreneur status comes with several favorable provisions:

- ✓ Simplification of accounting obligations, enabling a single register of income and expenditure to be kept, validated by the relevant tax authorities.
- ✓ An exemption from the formalities of registering in the commercial register, thus reducing the administrative burden.
- ✓ The application of a preferential tax regime, designed to reduce the tax burden for these entrepreneurs.
- ✓ Facilitating access to professional banking services, in particular through the possibility of opening an account dedicated to entrepreneurial activity. (la loi n°22-23, art 09, 2022)

These measures reflect the public authorities' determination to create an ecosystem conducive to the emergence and development of this category of entrepreneurs, seen as a potential lever for economic growth and job creation. This approach is part of a broader strategy to diversify the Algerian economy and promote private initiative.

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2-2-1 Preferential tax regime

The evolution of the Algerian legislative framework for self-entrepreneurs has reached a crucial stage with the adoption of law no. 22-23.

One of the most innovative aspects of this legislation is the introduction of a tax system tailored to the specific needs of sole traders. This new system is designed to reduce the tax burden on this category of economic player, thus creating an environment more conducive to entrepreneurial initiative.

The reform dynamic continued with the adoption of the Supplementary Finance Act for the 2023 financial year. This text refined and enriched the provisions initially set out in article 282, demonstrating the authorities' determination to adjust the regulatory framework to the realities on the ground.

Table (1): Comparative table of the tax system applicable to sole traders before and after the reforms

Criteria	Before the reform	After the reform (Law no. 22-23 and LFC 2023)
Tax system	Standard system for companies	Preferential treatment for auto-entrepreneurs
Tax rates	Rates vary according to company category	Single reduced rate for auto-entrepreneurs
Administrative complexity	Complex administrative procedures	Simplified procedures for auto-entrepreneurs
Accounting	Accounting standards	Simplified accounting on a single register
Commercial register entry	Mandatory for most activities	Exemption for auto-entrepreneurs
Access to banking services	Standard account opening procedures	Making it easier to open a commercial bank account
Main objective	General business regulations	Specific promotion of auto-entrepreneurship
Flexible legal framework	Relatively rigid frame	Gradual evolution (amendments by LFC 2023)

Source: compiled by us

This comparative table highlights the significant changes brought about by the new legislation. It illustrates the transition from a uniform system to a more nuanced framework, taking into account the specificities of auto-entrepreneurs.

Analysis of these elements reveals a political will to energize the economic fabric by facilitating the emergence of individual initiatives. This approach raises interesting questions about the

balance between promoting entrepreneurship and maintaining a coherent regulatory framework.

The LF for 2024 has brought significant changes to the tax regime for auto-entrepreneurs in Algeria. Article 18 of this law introduced significant amendments to article 282 sexies of the CIDTA.

These changes are designed to substantially reduce the tax burden on individuals operating under the auto-entrepreneur status. The legislator has revised downwards the tax rate applicable under the flat-rate tax (Impôt Forfaitaire Unique) (IFU) for this specific category of taxpayers. (Circulaire n°06/MF/DGI, 2023)

Table (2): Comparative table of tax regimes for auto-entrepreneurs according to LF 2023 and LF 2024

Aspect	Finance Act 2023	Finance Act 2024
IFU tax rate	5%	0,5%
Effective date	Fiscal 2023	From January 1, 2024
Main objective	Encouraging entrepreneurship	Combating the informal economy
Tax base	Income from eligible activities	Sales achieved
Measurement range	Introduction of preferential treatment	Significant reduction in tax burden
Impact on cash flow	Moderate relief	Substantial relief
Government strategy	Support for self-entrepreneurship	Encouraging the formalization of activities
Relationship with the legal framework	Modification of article 282 of the CIDTA	Revision of article 282 sexies of the CIDTA

Source: compiled by us (Circulaire n°08/MF/DGI, 2024)

This legislative evolution bears witness to a dynamic and reactive approach on the part of the Algerian authorities to economic issues. An analysis of these changes reveals several salient points:

- ✓ A strong political will to stimulate individual entrepreneurship, illustrated by the drastic reduction in tax rates.
- ✓ An adaptive tax strategy, from an already preferential rate of 5% to a quasi-symbolic 0.5%.
- ✓ The aim is twofold: to encourage the creation of new businesses, while encouraging those involved in the informal economy to become regularized.
- ✓ Gradual implementation, with a clear distinction between fiscal years 2023 and 2024.
- ✓ A potential leverage effect on economic growth, by enabling entrepreneurs to reinvest a larger share of their revenues.

2-2-2 Tax obligations for auto-entrepreneurs

The regulatory framework governing the status of sole proprietor in Algeria imposes a series of administrative and tax formalities. Although these obligations are merely bureaucratic constraints, they are fundamental to the legitimacy and durability of this form of economic activity. Among the unavoidable formalities, we can identify two main areas:

- ✓ *Integration into the tax and social security system:* auto-entrepreneurs are required to register with the tax authorities to obtain a unique identifier. This is accompanied by a compulsory declaration to the organization managing the social protection of self-employed workers.

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- ✓ *Official business registration*: A specific procedure has been put in place to formalize sole trader status. It involves a formal application for registration on a dedicated national register. This is done via a specially designed digital interface, reflecting a desire for modernization and administrative simplification. (la loi n°22-23, art 09, 2022)

The legal and fiscal framework for auto-entrepreneurial activities in Algeria is based on a series of compulsory procedures. Analysis of the regulatory path imposed on holders of auto-entrepreneur status reveals a sequence of structuring stages:

Table (3): Administrative and tax obligations for auto-entrepreneurs

Stage and deadline	Documents/Actions required	Consequences of non-compliance
<i>Opening a tax file :</i> As soon as	Submission to the relevant tax authorities	Inability to practice lawfully
<i>Declaration of existence :</i> 30 days after start of business	- NIF certificate - Auto-entrepreneur card - Proof of premises - Other relevant documents	30,000 DA fine
<i>Final G n°12 declaration: first 20 days of year N+1</i>	Form G n°12 bis	Risk of tax penalties
<i>Payment of IFU (1st year): With final declaration</i>	One-off payment (minimum 10,000 DA)	Late payment penalties
<i>Forward-looking statement G12 (subsequent years)</i>	Forecast declaration form	Automatic estimate possible
<i>Split payment of IFU (subsequent years)</i> - 50% on declaration - 25% to 09/15 - 25% to 12/15	Scheduled payments	Late payment surcharges and penalties

Source: compiled by us. (Circulaire n°06/MF/DGI, 2023)

This concise presentation highlights the chronology and interdependence of the auto-entrepreneur's administrative and tax obligations. It underlines the need for rigorous management and appropriate financial planning to comply with legal requirements.

3- Case Study: Effects of Auto-entrepreneurship in Tizi Ouzou

This study examines the impact of the auto-entrepreneur status in the Wilaya of Tizi Ouzou, focusing on registration trends, changes in the local economic structure, tax revenue implications, and operational challenges faced by the regional tax department.

The main axes of analysis include :

- Quantitative evolution of auto-entrepreneur registrations since its introduction.
- Changes in the structure of the local economic fabric.
- The impact on tax revenues and the formalization of the regional economy.

- The administrative and operational challenges faced by DIW in implementing this new regime.

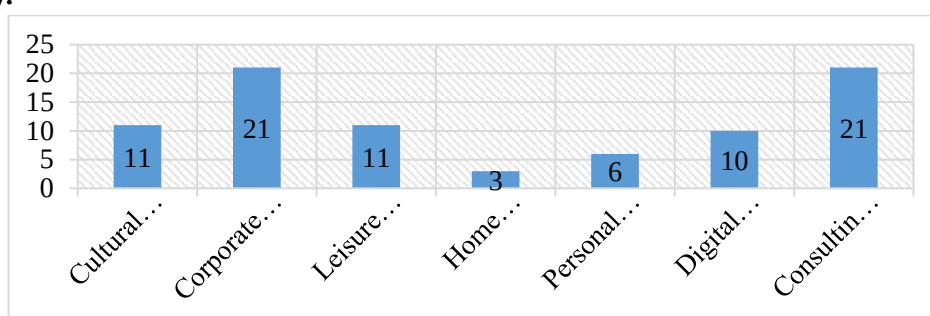
The adoption of auto-entrepreneur status may bring about significant changes in the tax landscape, particularly for local tax departments. Preliminary analysis suggests beneficial effects on several fronts.

3-1 Positive impact

The introduction of auto-entrepreneur status has broadened the tax base and increased the number of economic entities subject to tax..

The case study of the Tizi Ouzou DIW offers a concrete insight into these dynamics. Preliminary data for the year 2024 reveal a significant increase in the number of taxpayers, with 83 new auto-entrepreneurs registered, broken down as follows:

Figure (3): Breakdown of auto-entrepreneurs' files created in the Tizi Ouzou DIW by field of activity.



Source: compiled by us from DIW Tizi Ouzou statistics

This bar chart illustrates the distribution of auto-entrepreneurs by sector of activity, presumably in the wilaya of Tizi Ouzou. Preliminary data for 2024 shows a significant increase in new registrations, particularly in business services and trade sectors

Key points of the analysis :

- ✓ **Sectoral diversity:** The graph highlights a variety of business sectors, suggesting a relatively broad adoption of the auto-entrepreneur status across different economic domains.
- ✓ **Leading sectors :**
 - Business services" stood out with 21 auto-entrepreneurs, representing the most attractive sector.
 - Trade and distribution" comes second with 21 auto-entrepreneurs, indicating a strong orientation towards commercial activities.

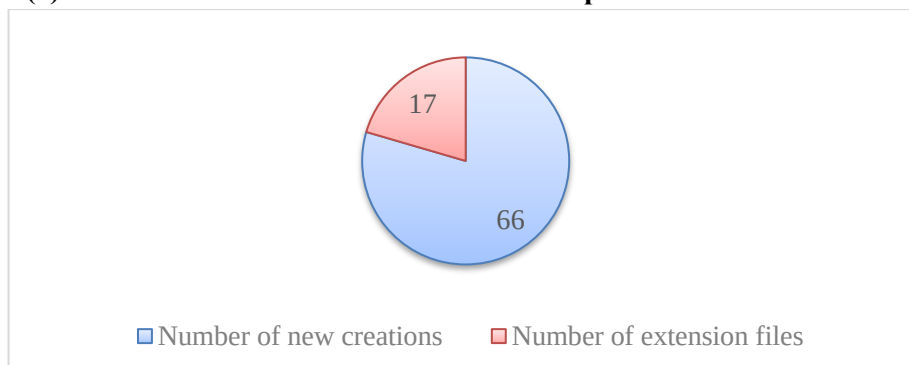
3-2 Negative impact

However, the transition to auto-entrepreneur status has also led to some established merchants abandoning traditional activities, potentially impacting public finances by reducing tax revenues.

- The data collected reveal a worrying trend: many established merchants have chosen to end their traditional activities in order to adopt this new status, which illustrates the following pattern:

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Graphic (4): Distribution of the number of auto-entrepreneurs created in the DIW of Tizi Ouzou



Source: compiled by us from DIW Tizi Ouzou statistics

Examination of the graph shows an interesting dynamic. There were 66 extension files, suggesting a significant transformation of existing structures. At the same time, only 17 new files were created.

This disparity could indicate an adaptation of already established companies, rather than a stimulation of emerging entrepreneurship.

- The adoption of the auto-entrepreneur scheme seems to have had a significant impact on public finances.

This statutory transition seems to be accompanied by an erosion of the tax base.

Indeed, the transition to this new status seems to lead to a reduction in tax obligations for the economic players concerned. This is reflected in a reduction in the volume of deductions made by the tax authorities. This is illustrated in the following tables:

Table (4): Negative differences resulting from reconciling the 0.5% IFU rate with the 12% rate In DA

Numb of auto-entrepreneurs	Sales (Assumptions)	Tax base	IFU revenue 0,5%	IFU receipts 12	Impairment losses IFU
83	5 000 000	415 000000	2 075 000	49 800 000	47 725000
83	2 500 000	207 500 000	1 037 500	24 900 000	23 862 500

Source: Compiled by us from DIW data for Tizi Ouzou .

Table (5): Negative differences resulting from the reconciliation of the 0.5% IFU rate with the IRG/BIC-BNC rate

Number	Receipt IRG BIC/ BNC	IFU revenue 0,5%	Impairment losses IFU
83	41 433600	2 075 000	39 358600
83	16 334400	1 037500	15 296900

Source : Compiled by us from DIW data for Tizi Ouzou .

Table 3: Negative differences resulting from the reconciliation of IFU at a rate of 0.5% with IRG/treatment and wages

Example 1: 5,000,000 DA annual salary gives a monthly salary of 416,667 DA

Example 2: 2,000,000 DA annual salary gives a monthly salary of 208,333 DA

Number	IRG/TS revenue	IFU revenues	Write-downs
83	125528868	2 075 000	123 453 868
83	55 128 490	1 037 500	54 090 990

Source: compiled by us from DIW data for Tizi Ouzou .

Examination of this information reveals a complex tax dynamic linked to the introduction of the auto-entrepreneur status. The tables highlight the significant differences (between 93% and 98.1% drop in tax revenues) between different tax regimes, underlining the financial implications of this transition.

Conclusion

Tax benefits for auto-entrepreneurs are crucial in stimulating entrepreneurship and creating a favorable environment for small businesses. These measures align with national economic goals, offering individuals the opportunity to pursue entrepreneurial ambitions within a simplified tax framework. However, the balance between providing incentives and maintaining fiscal sustainability requires careful monitoring and potential adjustments to optimize the benefits.

Recommendations

- Implement rigorous impact assessments to measure the effectiveness of tax policies on business creation and economic growth.
- Conduct cost-benefit analyses to determine if the economic benefits outweigh the loss of tax revenue.
- Consider adjusting the IFU rate to balance entrepreneurial encouragement with fiscal needs.
- Foster cross-sector collaboration to stimulate innovation and economic growth.

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