

Tax expenditures in Alegria between costs and benefits

النفقات الضريبية في الجزائر بين التكاليف والفوائد

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Abstract:

This study aimed to find the reality of the tax expenditure in Algeria, costing millions of dollars in economics losses every year, without achieving the desired goals, on the top promotion of investment, perhaps among the reasons for ineffectiveness the tax expenditure we find the phenomenon of fiscal fraud, as well as the problem of tax duplication, and fiscal pressure. Accordingly, we tried in this research to present the reality of this economic tool.

Keywords: collection, investment, motivation, law.

ملخص:

تناولت هذه الدراسة إلى إيجاد البحث في واقع الإنفاق الجبائي في الجزائر ، والذي يكلف ملايين الدولارات في خسائر اقتصادية كل عام ، دون تحقيق الأهداف المرجوة ، وعلى رأسها تحفيز الاستثمار ، وربما من بين أسباب عدم فاعلية الإنفاق الجبائي نجد ظاهرة الغش الجبائي في الجزائر ، فضلا عن مشكلة الازدواج الضريبي. والازدواج الضريبي، وعليه حاولنا في هذا البحث عرض واقع هذه الأداة الاقتصادية.

كلمات مفتاحية: جباية , استثمار , تحفيز , قانون.

Cette étude visait à trouver la réalité de la dépense fiscale en Algérie, coûtant des millions de dollars en pertes économiques chaque année, sans atteindre les objectifs souhaités, au top de la promotion de l'investissement, peut-être parmi les raisons de l'inefficacité de la dépense fiscale on retrouve le phénomène de la fraude fiscale, ainsi que le problème de la duplication fiscale et la pression fiscale. Ainsi, nous avons essayé dans cette recherche de présenter la réalité de cet outil économique.

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Mots clés : collecte, investissement, motivation, droit.

1. Introduction :

We can use the taxes as instrument to achieve some various goals, such as political goals, or social goals, or economics goals, and among these goals we find Investment encouragement.

In order to achieve that goals, countries are endeavouring to grant taxes facilities, or aspiring Tax expenditures.

This procedure helps projects to reduce production costs, and expanding activities with new investment, but on other hand it costs the government a lot of amount that can be used to cover overhead.

From this point of view, the problem that can be raised in this study is:

Are the Tax expenditures given by the government encourages private investment in Algeria?

To answer the problem, we propose the following hypotheses:

- **Tax expenditures does not encourages private investment in Algeria.**
- **Tax evasion is the main reason for ineffective Tax expenditures.**

We will try to answer this problem in the following points:

- **General definitions.**
- **Types of tax expenditures.**
- **The type of tax expenditures In Algeria.**
- **Cost of tax expenditures in Algeria .**

2. General concepts:

2-1 –definition of tax expenditures:

The government has a lot of instrument to impact on the economics, from these instrument there is the tax expenditures.

We can be defined the tax expenditures as follows;

- Tax expenditures (TEs) are preferential tax treatments granted to specific individuals or categories of households with the aim of achieving social and economic goals. (salvor and others, 2019, p. 15)
- Tax advantages granted by the state in order to encourage individuals or legal entities, to voluntarily waive a part of its revenue as to achieve a specific objectives (TAX EXPENDITURES, p. 25).

Also we can say to the tax expenditures :

- any law of the federal government or of this state that exempts, in whole or in part, certain persons, income, goods, services, or property from the impact of established taxes, including, but not limited to tax deductions, tax exclusions, tax

subtractions, tax exemptions, tax deferrals, preferential tax rates, and tax credits. (Brown, 2021-2023, p. 01)

- Tax expenditures are alternative policy means by which governments deliver financial support to individuals and companies. In Denmark, for example, the government makes direct payments to households with children, which appear on the expenditure side of the budget. In the United States, reducing the income tax paid by families with children provides similar assistance. (Christopher Heady, 2019, p. 01)

In light of the above , a definition of tax expenditures as follows :

- We talk about tax expenditures when the government uses the same tax system to achieve certain goals instead of direct spending.

2-2-Types of tax expenditures :

Tax expenditures come from provisions such as exemptions, exclusions, reduced tax rates, deductions, credits, deferrals, simplified, special or promotional regimes, and refunds or reimbursements: (Handbook of Best Practices on Tax Expenditure Measurements, 2011, p. 04)

- Exemptions are suppression of taxation. They may have a defined validity period.
- The exclusions are events left out of the taxation scope.
- The reduced tax rates need no explanation. They are deviations of the established general tax rates.
- The deductions are the amounts deducted from the taxable base.
- Credits are the amounts to reduce from the determined tax.
- The simplified, special or promotional regimes are provisions that cover one or more taxes. Typically they operate on small taxpayers, geographic areas with comparative disadvantages relative to the rest of the country and specific economic sectors.
- Finally, refunds or reimbursements compensate financially the taxpayers.

2-3-- Measured of the tax expenditures:

Tax expenditures are calculated using the revenue forgone method which calculates the tax that would have been payable if the tax concession were removed, and economic behaviour remained unchanged As Anderson explains there are alternative ways to measure tax expenditures: (Tax Expenditures in OECD Countries, 2010, p. 14)

- **initial revenue loss (gain):** the amount by which tax revenue is reduced (increased) as a consequence of the introduction (abolition) of a tax expenditure, based upon the assumption of unchanged behaviour and unchanged revenues from other taxes.
- **Final revenue loss (gain):** the amount by which tax revenue is reduced (increased) as a consequence of the introduction (abolition) of a tax expenditure,

taking into account the change in behaviour and the effects on revenues from other taxes as a consequence of the introduction (abolition).

- **Outlay equivalence:** the direct expenditure that would be required in pre-tax terms to achieve the same after-tax effect on taxpayers' incomes as the tax expenditure if the direct expenditure is accorded the tax treatment appropriate to that type of subsidy or transfer in the hands of the recipient.

2-4- Tax or direct expenditure ?

The discussion of these factors or considerations is divided into two categories: (Michael, 2018 , p. 04)

- **Policy considerations:** This section attempts to lay out factors that go to the efficacy of using direct versus tax expenditures. Which mechanism is likely to work better given the policy goals and nature of using either of the two mechanisms? Are different constitutional considerations involved with direct versus tax expenditures? Will there be an adverse effect on the tax system of using tax expenditures? This section focuses on factors that go to how well each of the methods works to further the policy goals the legislator seeks to achieve.

- **Institutional considerations:** This section discusses process or institutional considerations that differ between the two approaches. Rather than discussing the intrinsic merits of one or the other mechanism, it focuses on matters such as ease of passage, political acceptability, durability, and similar factors.

3- The type of tax expenditures In Algeria

In the Algerian taxes system there is a lot of type of tax expenditures, and the legal legislators enact this in the finance Act every year .

3-1- employment promotion:

Table (01): the type of tax expenditures in the tax system for employment promotion.

	Type of taxes	Permanent exemption	Temporary exemption
Promote employment	-Total income tax (irg) -Companies profits tax(ibs) - Single flat tax (ifu)	-----	Three(03) years on activities by the young people in the framework: -national agency for supporting young employment (ANSEJ) -national agency for the management of the microcredit (anjem) -national unemployment insurance fund (cnac)
	Property rights transfer	In the case of buying a property	-----
	Value-Added tax (Tva)	In the case of buying a equipment	-----

Source: prepared by the researcher depending on tax laws.

3-2- Other economic sectors :

There are several exemptions in the tax system of Algeria as follows :

Table (02): the type of tax expenditures in the tax system for Other economic sectors .

	Type of taxes	Permanent exemption	Temporary exemption	Reduction
Agricultural sector	Total income tax (irg)	The revenue from milk for human consumption	For 10 years: -Animal husbandry - agricultural	-----

		The revenue from cultivation cereals and legumes	Sector in mountainous areas			
	Companies profits tax(ibs)	The revenue from milk for human consumption	-----			
		Banking operations for cooperation funds				
		Logistics and procurement for cooperation funds				
	Value-Added tax (Tva)	Raw materials purchasing for animal food industry	-----			
		Fertilisers				
		Agricultural activity machinery				
	Tourism sector	Companies profits tax(ibs)	-----		For 03 years : -tourist agency -hotel establishments for turnover realized by hard currency For 10 years : tourist agency on condition reinvest its profits	-----
		Value-Added tax (Tva)	-----		-----	9%
Professional activity tax		Tourism activities	-----	-----		

	(tap)			
	Registration tax	Establishing and raising the capital of tourism companies	-----	-----
Construction and public works sector	Total income tax (irg)	Housing rent that is less than 80 square meters	-----	-----
	Rael estate taxes	-----	The new builders	
	Value-Added tax (Tva)	-----	-----	9%
	Companies profits tax(ibs)	-----	-----	19%

Source: prepared by the researcher depending on tax laws .

3-3-tax expenditures of a social nature :

there is a bunch of tax expenditure of a social nature, as follows :

- Exemption from the minimum wage that estimated amount of 20000da .
- Reduction of 10 % for the couples who choose a joint declaration.
- Exemption for the enterprises owned by people with disabilities.
- Exemption from Companies profits tax (ibs) for cooperative companies that state owned .
- Exemption from Value-Added tax(Tva) for donated goods to charities .

And some priority sectors for public authorities such as education , housing , health and the cultural sector from tax incentives.

Table (03): the type of tax expenditures in the tax system for Health sector and Cultural sector.

	Type of taxes	Permanent exemption	Temporary exemption	Reduction
Health sector	Value-Added tax (Tva)	National code of pharmaceutical product	-----	Reduction of rate 9% for some medical work
		Raw materials from pharmaceutical industry		
	Professional activity tax (tap)	-----	-----	Reduction of 30% on sales a locally manufacture medicine
Cultural sector	Total income tax (irg)	Revenue of theatre groups and museums	Traditional crafts	-----
	Companies profits tax(ibs)	Revenue of theatre groups and museums	-----	-----
	Value-Added tax (Tva)	The printing of books Publication of books on electronic means	-----	-----

Source: prepared by the researcher depending on tax laws .

3-4- Effectiveness of Tax expenditures in encouraging investment:

The tax expenditure can be encouraged investment in Algeria, through reducing the costs of production, and we can notice it from following table :

Table (04): Investment projects declared by sector of activity in 2021.

	Number of PROJECTS	%	Amount million AD	%	Number of jobs	%
NORTH CENTER	503	26,80	144821	27,53	13877	29,71
NORTH WEST	266	14,17	104402	19,85	8401	17,99
NORTHEAST	236	12,57	94899	18,04	7252	15,53
HIGHLANDS WEST	69	3,68	26039	4,95	1231	2,64
HIGHLANDS CENTER	82	4,37	18920	3,60	1476	3,16
EASTERN HIGHLANDS	358	19,07	76155	14,48	8566	18,34
SOUTH WEST	70	3,73	13975	2,66	737	1,58
SUD EST	274	14,60	44028	8,37	4609	9,87
Big south	19	1,01	2787	0,53	562	1,20
TOTAL	1877	100	526027	100	46711	100

Source: The Statistical Information Bulletin N°40 , Ministry of Industry, Edition March 2022 , p18.

- From above table we notice that the total of projects registered in Algeria in 2021 is 1877 projects, and these projects distributed throughout the country.
- The most projects registered at north center, and eastern highlands, because of the large population density .
- These projects cost amounts commensurate with their number of projects .
- Number of created positions by these projects is 46711 positions .
- These positions commensurate with their number of projects.
- These projects distributed among eight sectors as following:

Table (05): Investment projects declared by sector of activity

	Number of PROJECTS	%	Amount million AD	%	Number of jobs	%
AGRICULTURE	107	5,70	33593	6,39	1513	3,24
BTPH	382	20,35	59589	11,33	4862	10,41
INDUSTRIES	980	52,21	275525	52,38	28417	60,84
Health	119	6,34	51448	9,78	3709	7,94
TRANSPORT	16	0,85	1379	0,26	148	0,32
touristic	94	5,01	79411	15,10	4892	10,47
SERVICES	179	9,54	25073	4,77	3170	6,79
Total	1877	100	526027	100	46711	100

Source: The Statistical Information Bulletin N°40 , Ministry of Industry, Edition March 2022 , p17.

- During the year 2021, the total investments recorded amount to 1877 projects for a amount of 526,027 million DA and 46,711 jobs envisaged.
- The majority of projects have been the fact of the industry sector with 52.21% of the total number of declared projects.
- this sector cumulates 275,525 million DA with 52.38% of the investment amount and 28,417 agents i.e. 60.84% of the total.

The target of this politics is to motivate sectors out of petroleum sector,
And that what this table shows:

Table (06): Composition of value-added (%)

	2018	2019	2020
AGRICULTURE	12,3	12,8	14,7
petroleum	23,1	20,3	14,6
INDUSTRIES	5,6	5,9	6,5
Construction	11,9	12,7	13,6
market services	27,6	28,1	27,3
Non-market services	19,4	20,2	23,4
Total	100	100	100

Source: economic accounts from 2008 to 2020, SNO, p 12, Algeria, 2022.

We note through the table that the petroleum sector contribute 23,1 of value-added in the year 2018, but this contribute less for the years 2019 and 2020 , respectively should read 20,3 and 14,6.

4-Costs of tax expenditures in Algeria :

Tax expenditure, when provided, lead to a loss for the public treasury, probably, and it was probably to return, and this table will shows the cost of expenditures in Algeria:

Table (07): Costs of tax expenditures in Algeria

	2013	2014	2015	2016	2017	2018	2019	2020
Tax expenditure (1)	45,35	40,64	85,70	68,55	95,77	88,45	138,05	99,90
Ordinary taxes (2)	1568,51	1687,03	1978,43	2040,89	2270,9	2360,2	2455,6	2333,2
GDP out of petroleum (3)	11679,9	12570,8	13567,9	14381,2	15297,7	16456,7	17552,8	17228,5
½ (%)	5,886	5,857	5,079	6,345	7,067	7,630	7,570	8,379
1/3 (%)	0,790	0,786	0,740	0,900	1,049	1,094	1,059	1,134

Source: Statistics of the General Directorate of Taxes.

- The values of tax expenditure vary from year to year .
- The annual losses of the public treasury as tax expenditure is approximately 6,72% of total revenues. And that which translates to around 1% of GDP OUT of petroleum .
- 2020 is the biggest loss for the public treasury with 8,379 %.
- The effectiveness of tax expenditure in stimulating investment is not depended by give more exemptions , but it is depend upon an integrated policy.

6- CONCLUSION :

The state's accompaniment to productive investment is essential and necessary, and this is in order to create wealth and jobs, especially in light of the decline in oil prices and with it the flow of state revenues.

- Annual tax expenditure costs large amount for THE Algerian Government, it worth around 1 % of GDP, but in return it doesn't seem to encourage investment.
- Among the main reason which to ineffectiveness tax expenditure we find the Tax Evasion, it works to transfers these facilities to another destinationsa.
- and This phenomenon has witnessed a wide spread in Algeria in recent years, so that it negatively affects the fiscal resources of the government, as well as the moral structure of society, and from this perspective, emphasis must be placed on everyone who begged himself to harm the main resource of the state, which is the tax, and in this context the Directorate The General Tax Department seeks to combat and reduce this phenomenon as the second party to the tax relationship.
- The support provided by the state to the private sector is not sufficient, as it must follow up on these privileges until they reach their owners, and from this the state reaches the achievement of the desired goals of this policy.

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