THE TUNISIAN TAX **ADMINISTRATION**

A Broken-Down Instrument

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ABSTRACT

Despite the economic crisis that the country faces and the pressing need for resources, and despite the prevalence of tax fraud that is estimated to cost the state around 83% of the totality of its tax revenues, the performance of the Tunisian tax administration remains low, with weak tax revenues coming from tax collection and tax audits. This paper examines the consequences of the low performance of the tax administration on domestic resource mobilization, and discusses some of the external, and internal obstacles that contribute to the ineffectiveness of the administration and the prevalence of tax fraud in Tunisia, with a focus on issues relating to tax legislation, administration structure, human resources, and material resources

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INTRODUCTION

Tunisia has not escaped the devastating economic consequences of the COVID-19 pandemic. The country registered a growth rate of -21,6% in the second quarter of 2020 [1], and an increase in the unemployment rate reaching 18% in the second quarter of 2020 [2] (as opposed to 15,3% in the same period of the previous year).[3] The economic crisis will inevitably result in a higher number of people who require financial support and access to free public services, especially public healthcare. In order to fulfill the needs of its citizens, the Tunisian government will have to collect the necessary additional resources to fund these activities. With an already heavy public debt estimated at 85% of GDP by the end of 2020 [4], and with the rarefication of lending opportunities as the world deals with a possible global recession, Tunisia will, in fact, have to rely on domestic resource mobilization, particularly on fiscal resources which represent 89% of its domestic resources.[5]

This presents a clear challenge in the context of the current economic crisis. In fact, according to estimates from the first six months of 2020, the budget deficit will total 7%, while fiscal revenues will decrease by 12%, including a 30% loss in corporate tax revenues, and a 15,6% loss in VAT revenues.[6]

Generally, and especially in times of crises, it is important to adopt a fiscal policy able to tax individuals and companies based on their contributive capacities, and able to redistribute those resources in a way that benefits its citizens. This will entail breaking with austerity measures that renders governments powerless to mobilize its domestic resources and meet the needs of its citizens, and instead opt for progressive tax policies based on justice and equity, as stated by the first paragraph of article 10 of the Tunisian constitution. One aspect of this fiscal justice is ensuring the compliance of all taxpayers. This will not only create a culture of consent to taxation thus building a stronger tie between government and citizen -but will also guarantee higher revenues for the state. However, tax compliance remains a real problem for the Tunisian government as a whole and the tax administration in particular. In fact, the cost of tax fraud is estimated at around 25 billion Dinars (about USD8.3 billion), i.e. 24% of the GDP [7], the equivalent of more than half of the Tunisian Annual national Budget, and around 85% of its fiscal revenues. This rampant fraud is a sign of the failure of the state in its mission of tax collection as stipulated by the second paragraph of Article 10 of the Tunisian constitution. The state's structure in charge of this task and most qualified to deal with this phenomenon, and address the loss of public revenues is the tax administration.

Article 10 of the Tunisian Constitution

Paying taxes and contributing towards public expenditure are obligations, through a fair and equitable system.
The state shall put in place the necessary mechanisms for the collection of taxes, and to combat tax evasion and fraud.
The state shall ensure the proper use of public funds and take the necessary measures to spend it according to the priorities of the national economy, and prevents corruption and all that can threaten national resources and sovereignty

1 National Institute of Statistics, Bulletin Mensuel des statiques Juillet 2020, (2020) Page 50.
2 National Institute of Statistics, Résultats Enquête emploi deuxième trimestre 2020, (2020) Page 1.
3 National Institute of Statistics, Indicateurs de l'emploi et du chômage Deuxième trimestre 2019, (August 2019), Page 3
4 Watania Replay, "Press conference by the Finance Minister 21-07-2020", 3:10, July 21, 2020, Accessed 17 September 2020, https://www.youtube.com/watch?v=DJkGJqTpLtk&feature=emb_title
5 Finance Ministry, Report on the Finance Law 2020, (Tunis, 2020)
6 Watania Replay, "Press conference by the Finance Minister 21-07-2020", 2:10, July 21, 2020, Accessed 17 September 2020, https://www.youtube.com/watch?v=DJkGJqTpLtk&feature=emb_title
7 Oxfam, LA JUSTICE FISCALE EN TUNISIE, UN VACCIN CONTRE L'AUSTERITE, 17 Juin 2020, Page 4.

A strong, fair and equitable tax administration is key to domestic resource mobilization.[8] Tunisia is no exception. In fact, its efforts in conducting control operations was identified as one of the main reasons for the increased fiscal revenues for 2019, specifically the 45% increase in corporate tax collection.[9] Improving the efficiency of this administration plays a vital role in providing more resources for the national budget and public services and lessening the burden of public debt. Its work is also essential in creating a culture of consent to taxation and tax compliance. However, despite the few improvements that have taken place, the tax administration performance seems to be relatively low. This paper seeks to delve into the reasons behind these rather weak results.

Despite the importance of this body, there is a scarcity of research and data available on the tax administration both on the international and national level.[10] Moreover, the few attempts that have been made to reform and improve the Tunisian tax administration often failed. The most recent one, in 2013, was led jointly by the Ministry of Finance, the International Monetary Fund (IMF), and the World Bank. After a year-long diagnosis process, several recommendations were made and a plan of action was established. However, seven years after the results of the diagnostic were made public, no significant improvements have been registered, proving the inefficacy of certain recommendations and the mishandling of others.

Poor performance comes as no surprise; tax administrations in developing countries often suffer such problems. One of which is the structure of the economy and the size of the informal sector, which makes it difficult to impose and collect taxes. Other issues include is the limited capacity for tax administration, and the poor quality of basic data.[11] The Tunisian administration is no different. In fact, this administration faces various obstacles. Some are external, while others are internal.

This paper seeks to understand the role played by the Tunisian tax administration, analyze its performance, and identify the problems it faces in accomplishing its mission: collecting taxes and fighting tax fraud.

The first section will aim to introduce the tax administration and give an overview on its performance. This will be done following the Silvanu and Baer efficiency and effectiveness framework that defines performance by the effectiveness of the tax collection process and taxpayers' non-compliance or the tax gap[12]. The second section will tackle the external obstacles that hinders the work of the administration, following the "slippery-slope" model on tax compliance. Finally, the third part will identify some key internal problems within the administration itself, that prevent it from properly addressing the issue of tax fraud, relating to its organization, staff, and material resources.

8 UN, OECD, IMF, World Bank, Supporting the Development of More Effective Tax Systems A REPORT TO THE G-20 DEVELOPMENT WORKING GROUP

9 Report on the finance Law 2020

10 Mansor, Muzainah. "Performance Management for a Tax Administration: Integrating Organisational Diagnosis to Achieve Systemic Congruence." J. Australasian Tax Tchrs. Ass'n 5 (2010): P4.

11 Kayaga, Lisa, and Kathleen Lahey. "Tax policy challenges facing developing countries: A case study of Uganda." (2007)

12 Mansor, Muzainah. "Performance Management for a Tax Administration: Integrating Organisational Diagnosis to Achieve Systemic Congruence." J. Australasian Tax Tchrs. Ass'n 5 (2010): P4.

I. EVALUATING THE PERFORMANCE OF THE TUNISIAN TAX ADMINISTRATION

In order to understand the performance of the Tunisian tax administration, it is important to first understand its structure and tasks, before discussing the results of its efforts in tax collection and tax audits.

a. THE ADMINISTRATION'S STRUCTURE, AND TASKS:

The Tunisian Tax administration is a body that falls directly under the Ministry of Finance and has the main mission of collecting tax revenues. It is composed of four main structures (Figure 1) [13].

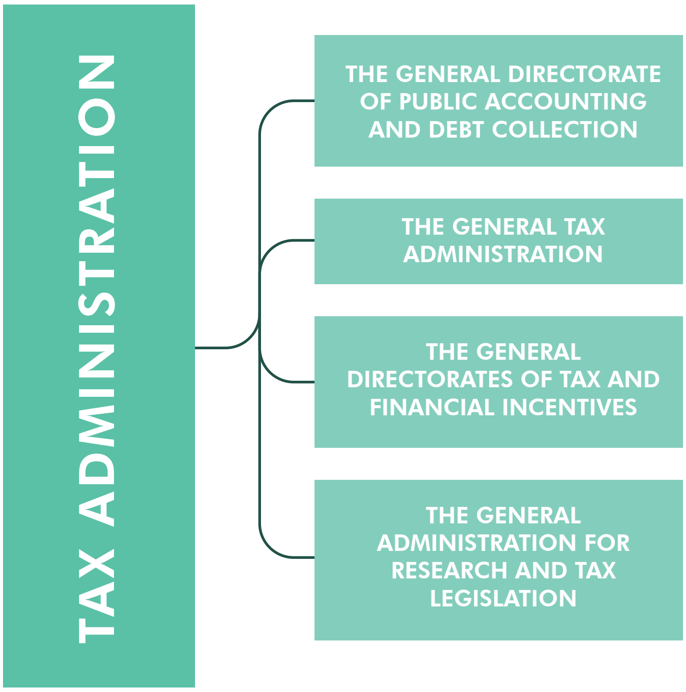

Figure 1: Structure of the Tunisian Tax Administration (Source: Oxford Business Group) [14]

The general tax administration (DGI), in charge of such tasks as:

- Implementing fiscal legislation and regulations, as well as the monitoring of tax bases, duties, taxes, royalties, etc.
- Monitoring and implementing tax audits,
- Monitoring and responding to taxpayer requests,
- Conducting conciliation procedures, and
- Including the big enterprises directorate in charge of monitoring and collecting taxes for large companies.

13 Oxford Business Group, Review of Tunisia's tax system. (2016, April 28). Retrieved August 27, 2020, from https://oxfordbusinessgroup.com/overview/need-know-national-tax-system-glance
14 Ibid.

The General Directorate of Public Accounting and Debt Collection (DGCPR) in charge of:

- Tax collection of national and local taxes,
- Monitoring and payment of public expenditures,
- Maintaining public accounts,
- Producing the financial and accounting information in relation to the execution of budgetary and treasury operations with regards to public structure operating under the public accounting code, and
- The study and development of accounting norms for the central government, public establishments, and municipalities.

The general directorates of tax and financial incentives (DGAFF) in charge of:

- Preparing legal drafts concerning fiscal and financial incentives,
- Setting up the aforementioned legal frameworks in order to promote investments,
- Reviewing and granting companies' tax incentives applications, and
- Performing a periodical review of already-granted tax incentives.

The general administration for research and tax legislation (DGELF) in charge of such tasks as:

- Preparing studies related to the tax system to identify taxpayers' needs, and adapting legislation to them,
- Preparing law drats related to taxation,
- Monitoring the implementation of tax legislation, and
- Preparing general memos in relation to tax legislation.

In order to evaluate the performance of the tax administration, we will be using the Silvanu and Baer efficiency and effectiveness framework, which links performance to two main factors, tax collection, and tax compliance gap. As a result, we will focus on two main structures: the general directorate of public accounting and debt collection in charge of tax collection, and the general tax administration in charge of tax audits.

b. SEVERELY LOW TAX COLLECTION RATES:

On the national level

In 2019, the tax administration counted nearly 700,000 taxpayers, of which 549,277 are physical persons and 143,031 are moral entities.

Only 37.9% of individuals have declared their income on-time (Figure 2). A number that is consistent with post-revolution tax-return numbers such as a tax return percentage of 36.6% in 2011 (Figure 3). The tax return rate at end September 2019 is also low, at about 60.48% (Figure 2). This reflects a massive tax fraud trend related to the failure to declare income in the regulated sector.

	REAL	FORFETARY	TOTAL
Total number of physical persons subject to taxation	178,274	371,003	549,277
Number of taxpayers having filed tax returns before the end of September	111,006	221,178	332,184
Number of taxpayers having filed tax returns in the deadlines	62,218	145507	207,725
Number of taxpayers having filed tax returns after the deadlines	48,526	68,924	117,450
Number of taxpayers who have not filed their tax returns	67,268	149,825	217,093
Tax filing that respected the deadlines	34.19%	39.22%	37.9
Tax filing rate at the end of September 2019	62.22%	59.62%	60.48%

Figure 2: 2019 Tax Return Numbers for Physical Persons (Source: the Tunisian Tax Administration) [15]

IThe tax collection rate is not the same across tax collection offices. In some offices, these rates are significantly lower. In Beja for instance, one tax collection office had a collection rate of only 22.37%.[16]

	IN THE DEADLINES	AT THE END OF THE FISCAL YEAR
2009	51.2%	75.7%
2010	40.5%	65.7%
2011	36.6%	50.8%

Figure 3: Tax Return Rates 2009-2011 (Source: The Ministry of Finance) [17]

Corporate tax rate

Taking a look at corporate income tax in particular, we find that failure to declare is even higher with only 33% of taxpayers declaring their income on time, and only 52.67% of them submitting tax returns by the end of October 2019 (Figure 4).

15 Response to access to information request by Al Bawsala
16 The annual court of auditors' report 2016, Court of auditors' report on the collection office "18 Arbi Zarrouk Street" Béja. Page 739
17 مشروع اصلاح المنظومة الجبائيّة بوزارة الماليّة. حوصلة لاشغال فريق العمل المكلّف بدعم الشفافيّة الجبائيّة و قواعد المنافسة النّزيهة و دعم ضمانات المطالبين بالأداء و التصدّي لأعمال التهرّب الجبائي، 2013

TOTAL NUMBER OF CORPORATION SUBJECT TO TAXATION	143,031
Number of taxpayers having filed tax returns before the end of September	75,329
Number of taxpayers having filed tax returns in the deadlines	47,200
Number of taxpayers having filed tax returns after the deadlines	28,129
Number of taxpayers who have not filed their tax returns	67,702
Tax filing that respected the deadlines	33.00%
Tax filing rate at the end of October 2019	52.67%

Figure 4: Corporate Income Tax Numbers 2019 (Source: The Tunisian Tax Administration)[18]

The 2019 rate shows very little improvement from the 2015 numbers, where 46% of companies failed to declare their income, with only 24% of them submitting taxable tax returns (Figure 5). This long trend of failure to submit taxes reflects one larger trend of rampant tax fraud both in the regulated sector, and in the Informal sector.

Figure 5: Corporate Income Tax Return Distribution 2015 (Source: Al Bawsala)[19]

On the local level

Rampant tax fraud can be seen not only on the national level through income taxes, but also on the local level where local taxes suffer from the same low collection rate as national taxes do.
In a Court of Auditors' report studying the fiscal revenues of 126 municipalities whose budgets exceed 1 Million Dinars, it was found that the tax collection rate for the fiscal revenues reached only 59.07% in 2018. (Figure 6).

18 Response to access to information request by Al Bawsala

19 Amine Bouziane, The 2019 Finance Law Draft: Under the Lights of Fiscal Equity, Al Bawsala (Tunis, 2019).

REVENUES	COLLECTION RESIDUALS 2017	TOTAL OWED	DEDUCTIBLES	COLLECTIBLES	TOTAL AMOUNT COLLECTED	RESIDUALS 2018
Tax Revenues	399,535	1053,118	1,076	1052,041	621,545	430,528
Ordinary Tax revenues	347,239	766,704	1,072	765,632	387,568	378,095
Taxes on real-estate and activities	282569	561,197	0,842	560,354	247,530	312,855
Taxes on the use of public property and the use public services requirements	32,451	102,891	0,230	102,661	70,166	32,495
Taxes on administrative licenses and providing services	23,890	89,359	0	89,359	64,640	24,719
Other Ordinary tax revenues	7,933	13,257	0	13,257	5,232	8,025
Extraordinary Tax Revenues	52,296	286,414	0,004	286,410	233,977	52,433

Figure 6: Fiscal Revenues for Municipalities 2018 in millions of Dinars (Source: Court of Auditors) [20]

Looking further at particular taxes, collection rates seem to drop even lower. For the tax on vacant land, the rates barely reached 14% in 2012. (Figure 7) Real estate tax faces similar fraud problems with a tax rate of 14% in 2012. (Figure 8)

	2010	2011	2012
TOTAL EXPECTED TAX REVENUE (IN MDT)	85	89	100
COLLECTED (IN MDT)	15	12	14
TAX COLLECTION RATE	18%	14%	14%

Figure 7: Vacant Land Tax (Source: The Ministry of Finance) [21]

	2010	2011	2012
TOTAL EXPECTED TAX REVENUE (IN MDT)	40	21	30
TAX COLLECTION RATE	18%	14%	14%

Figure 8: Real Estate Tax (Source: The Ministry of Finance) [22]

20 Court of Auditors, "Financial Analyses of Municipalities for the Year 2018", (2019), Page 3.

21 Page 8 ,مشروع اصلاح المنظومة الجبائيّة بوزارة الماليّة، حوصلة لاشغال فريق العمل المكلّف باصلاح الجباية المحلّيّة

22 Ibid. Page 4

All these low tax collection rates at both the national and local level reflect a high-level of tax fraud and a low rate of voluntary tax compliance by taxpayers. The logical step for the tax administration is to undertake a large number of tax audit operations which will be discussed in the next section.

c. THE FAILURE OF TAX AUDITS:

The Tunisian tax administration relies on two types of audits: preliminary audits, and in-depth audits.

"Preliminary tax audit

In case of a preliminary tax audit, the taxpayer under control is not notified prior to starting the audit. However, the tax authority has the obligation to send an information request concerning the tax findings. The taxpayer has to reply within a certain deadline. The tax audit is conducted in the offices of the tax administration and deals with the documents made available to them (tax returns, registered contracts, etc.). However, preliminary tax audits can never deal with the taxpayer's accounts.

A preliminary tax audit does not prevent an in-depth tax audit of the same period and the same taxes.

In-depth tax audit

In case of an in-depth tax audit, the taxpayer under control is notified prior to starting the audit. They deal with the accounts of the taxpayer under control (in cases where the taxpayer has the obligation to maintain accounts according to the accounting legislation into force) as well as any other evidence (presumptions, registered contracts, etc.). They take place, as a general rule, on the business premises of the taxpayer.
However, and upon the request of the taxpayer or the tax controllers, the tax audit can be conducted in the tax authorities' office. In this case, books, records, and any other documentation deemed necessary to the tax auditors to complete the audit have to be moved to the tax auditors' office." [23]

With tax collection being weak and tax fraud being rampant, it only stands to reason that the state would invest more resources into tax audits to collect taxes on undeclared income and activities, especially for the high-risk taxpayers -which will be discussed further. However, that is not what seems to be happening in the Tunisian tax administration.

Taking for example the big enterprises directorate, the body in charge of monitoring the tax compliance of large companies, the rate of preliminary of audits actually dropped, from 24% in 2009 to 8% in 2015 due to the increase of taxpayers and the stagnation of the number of agents. The administration was thus forced to prioritize offering services to taxpayers over tax compliance checks. This choice was made despite the importance of preliminary checks. In fact, a report by the court of auditors, which have examined a sample of 96 cases of in-depth audits between 2010 and 2014, found that more than 30% of instances of fraud detected had results that could have easily come from simple preliminary checks,[24] which would have saved the administration time and resources.

Another example can be found in the tax center Sfax 1, where despite tax incentives being an important area of tax fraud, only 8% of all preliminary audits between 2013 and 2017 concerned tax incentives. Of the 1924 taxpayers who enjoy tax incentives deductions from income or profits relating to exports or reinvestment, only 91 of them were subject to in-depth audits, i.e. an audit rate of around 5% between 2012 and 2016.[25] For

23 PWC, Tunisia. (n.d.). Retrieved August 27, 2020, from https://taxsummaries.pwc.com/tunisia/corporate/tax-administration

24 The annual court of auditors' report 2016, Court of auditors' report on the big enterprises directorate. Page 359

25 Ibid. Page 795

those who enjoyed a temporary VAT exoneration between 2013 and 2017, only 14% of them were subject to in-depth audits.[26]

Despite their low number, when looking at the results generated by audits, they will generally far exceed their cost and provide a considerable amount of revenue for the administration and thus for the state budget and financing public services. In the tax center Sfax 1 for instance, between 2013 and 2017, the center handled 47 039 entities and conducted only 551 in-depth audits. The audits resulted in 269.075 million dinars in revenues[27], or 488 339 dinars per in-depth audit.[28] As a result, the reluctance of the government to invest further in these operations poses a serious, inexcusable risk of loss of revenue.

Another issue reducing tax revenues is that of conciliation procedures. Even in the event that audits took place and missing taxes and fines are identified, there remains no guarantee that these revenues will reach the state budget. In fact, at times, conciliation might cut these revenues by more than half. This is the case for the tax center in Sfax 1 where the results of the tax administration between 2013 and 2016 totaled 44.55 MDT. However, after the conciliation proceedings, that number plunged to 22.17 MDT, i.e. a decrease of 55%.[29] The failure of the administration to collect all perceived missing taxes and fines poses its own problem.

In summary, the performance of the Tunisian tax administration seems to be mediocre at best causing a significant loss of fiscal revenue for the state. Tax return rates are low, the tax gap is wide, and the very limited number of audits seem to produce a significant amount of resources that is later lost through certain administrative procedures. This has led the cost of fraud to reach 25 Billion Dinars.

To explain this weak performance, the rest of this paper will consider some of the major obstacles that the tax administration faces, starting with external factors.

26 Ibid. Page 796

27 Divided into 35.216 MDT in 2013, 48.644MDT in 2014, 55.459MDT in 2015, 61.097MDT in 2016, 68.659 MDT in 2017

28 The annual court of auditors' report 2018, Court of auditors' report on the reginal center of tax audit in Sfax 1. Page 792

29 Ibid. Page 809.

a. A CLIMATE OF TAX RESISTANCE:

The task of tax administrations is made more challenging by a climate that is not favorable to consent to taxation. The concept of consent to taxation is necessary in reducing tax fraud. However, this indicator seems to be somewhat missing from Tunisia, as a significant number of Tunisians do not see tax fraud as a bad thing. In fact, nearly 30% of them do not even consider it an act of corruption (Figure 9). Only 31,5% of them "highly agree" that tax evasion is a form of corruption.[30]

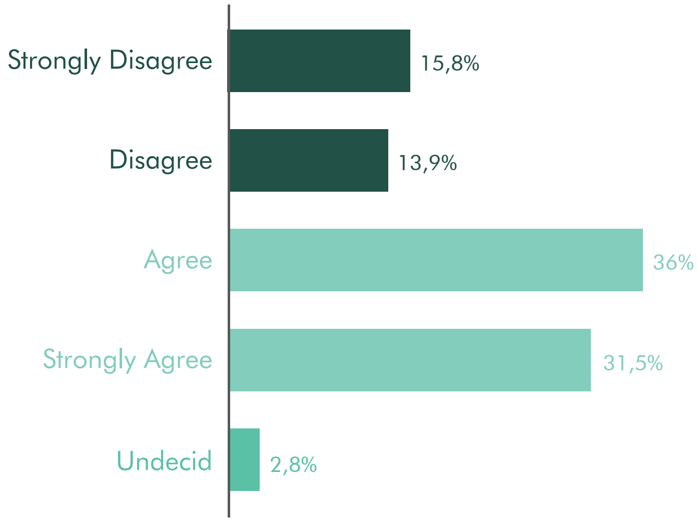

Figure 9: Tunisians Respond to the Question
"Do you think tax evasion is a form of corruption?" (Source: GIZ)[31]

In fact, looking at local taxes, only 46,9% of Tunisians have reported that they have paid their local taxes in 2018.[32]

This climate of tax resistance makes the task of the tax administration more difficult. Taxpayers refuse to engage with the system and do not cooperate with the administration's efforts in tax collecting, tax auditing, or even information gathering. Many factors may contribute to tax resistance. To understand some of these factors, this section will consider the "slippery slope" framework on tax compliance. As seen in Figure (10), tax compliance relies on two main factors: trust in authorities, and power of authorities.
Trust in authorities implies the "general opinion of individuals and social groups that the tax authorities are benevolent and work beneficially for the common good"[33], and is correlated with voluntary tax compliance. Power of authorities, on the other hand, refers to "taxpayers' perception of the potential of tax officers to detect illegal tax evasion, for example by conducting frequent and thorough tax audits, and to punish evasion, for example by fining evaders to a noticeable extent",[34] and is linked to enforced tax compliance.

30 GIZ, INLUCC, Perception de la Corruption en Tunisie, October 2019, Page 41.
31 Ibid.
32 Al Bawsala, Oxfam, and the European Union, Quantitative survey on citizen perception on local taxation, 2018, Page 44.
33 Kirchler, Erich, Erik Hoelzl, and Ingrid Wahl. "Enforced versus voluntary tax compliance: The "slippery slope" framework." Journal of Economic psychology 29, no. 2 (2008), Page 212.
34 Ibid.

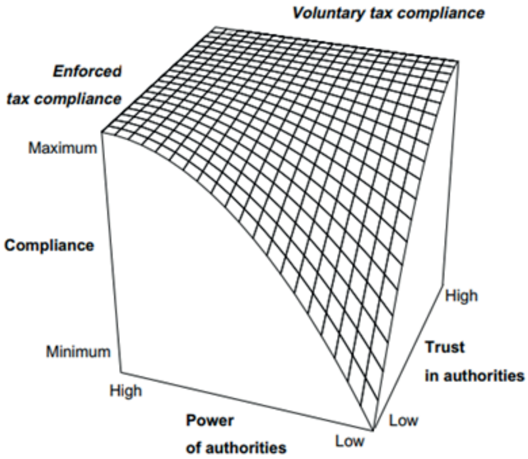

Figure 10: The "slippery slope" framework (Source: kirchler et al: 2008) [35]

We will start with the first factor: trust in tax authorities. This factor is related to the degree to which taxpayers trust the government to provide quality public services.[36] Due to a complex set of factors that include decreasing funding[37] and regional disparities[38], the quality of public services in Tunisia remains low. Taking healthcare as an example, the number of patients per doctor has nearly doubled from 2,8 in 2012 to 5 in 2016[39]. Intensive care units in public hospitals are unequally distributed between governorates, with Tunis having 79 beds available, while all governates of both the center-west and south-west had none.[40] These problems in the sector severely undermine people's trust in the government to allocate their collected taxes in a way that benefits tax payers, especially when it comes to public services such as healthcare, education, and infrastructure.

The lack of trust in authorities also stems from a lack of fiscal justice. Taxpayers are less likely to adhere to laws that they perceive as inherently inequal and unjust. Injustices in the Tunisian fiscal system are quite pronounced. For example, in terms of income tax, we find that salaried taxpayers contribute to 82,75% of fiscal revenues, while other categories such as BIC[41] contribute to only 0,6% of income tax revenues averaging around 55 dinars per taxpayer annually .[42]

The income tax brackets are also a reflection of an unequitable tax system that is being stripped of its progressivity. Going from 18 brackets (with an upper marginal rate of 68% on annual income above 80000 dinars before 1986) to a current system of only 5 brackets (with an upper marginal rate on only 35% on annual income above 50000), the income tax seems to put undue pressure on lower and middle classes. This is further exacerbated by non-progressive tax rates that jump from 0% to 26%.[43] Fiscal and social injustice is further entrenched by a heavy reliance on regressive taxes such as VAT that represents 28% of fiscal revenues.[44] Another major factor that is detrimental to fiscal justice is the low tax rates and revenues coming from corporate income tax. This tax was lowered by 10 points between 2007 and 2014, and presents resources that are only half of those provided by personal income tax. All of these factors have led to a low trust in authority.

35 Ibid.
36 Youde S., Lim S. (2019) Tax Compliance. In: Farazmand A. (eds) Global Encyclopedia of Public Administration, Public Policy, and Governance.
37 Oxfam, LA JUSTICE FISCALE EN TUNISIE, UN VACCIN CONTRE L'AUSTERITE, 17 Juin 2020, Page 2.
38 Ibid, Page 3.
39 Ibid, Page 13
40 Health Ministry, Direction des Etudes et de la Planification-S/Direction des statistiques, Santé Tunisie En Chiffres 2017. March, 2019. Page 136
41 BIC: Bénéfices Industriels et commerciales
42 Amine Bouziane, The 2019 Finance Law Draft: Under the Lights of Fiscal Equity, Al Bawsala (Tunis, 2019). Page 9
43 Ibid, Page 15-16.
44 Tunisian Ministry of Finance, Report on the 2020 Finance Law.

The second tax compliance factor, power of authorities, is also undermined in Tunisia. One issue that contributes to this phenomenon is the weak rule of law, particularly through the lax of the judicial system in dealing with cases of tax fraud swiftly, especially in high-profile cases such the case of Marwan Mabrouk [45], or former presidential candidate Nabil Karoui. This perceived reluctance of the judiciary to announce final verdicts on tax fraud charges has negative ramifications on tax compliance. Some taxpayers would see it as the government being permissive of tax fraud and might be less dissuaded by the punishment that comes with this crime. Others might see it as the government letting powerful people get away with their crimes and it builds even more resentment towards the government and its institutions, including and perhaps especially towards the tax administration.

Routine tax pardons are also detrimental to consent to taxation, specifically to the power of authorities. This tool routinely used by the Tunisian legislator tends to become cyclical, as evidenced by number of amnesties since the revolution. After these tax pardons were passed, no evaluations of their impacts were performed and published.

Despite the lack of evidence as to their effectiveness, even at the time this paper is being written, a law draft containing other fiscal amnesty measure for undeclared income and violations to the law on the use of foreign currencies is being discussed in parliament.[46] It sends negative signals to consenting tax payers by treating them on equal footing with people who committed tax fraud. This type of injustice creates a resentment towards the tax administration. It also reduces the sense of guilt in tax law violators, thus perhaps encouraging them to commit tax fraud in the future[47]. The frequency of tax pardons also creates a sense of anticipation in taxpayers for the next one. For instance, why should they declare their income now when they can just wait for the next pardon? Another dangerous signal that could be sent is that the tax administration is incapable of dealing with the rampant tax fraud, and needs tax pardons in order to be able to detect people who are operating outside the system, making tax resistance even easier.

Tax pardons are also a waste of resources and highly discouraging to tax agents. In 2014, the tax center in Sfax 1 conducted in-depth audits on 7 taxpayers that resulted in a revenue of 1 MDT, however, a law passed that year[48], declared a tax pardon for certain tax payers that cost the center 609, 000 DT of the result of the investigation, meaning a loss of 60% of the identified amount.[49] This is not only a waste for the resources of the administration but also a discouraging waste of the time and efforts of the tax agents.

This dangerous undermining of the power of authorities and the trust in authority leads to a rise in tax resistance, which is detrimental to the work of the tax administration. It reduces voluntary tax compliance, resulting in reduced resources for the state. Consequently, the tax administration is forced to invest more resources, both human and material, in tax law enforcement. However, with current austerity measures as prescribed by international financial institutions, and adopted by the government enforced tax compliance itself remains weak.

It should be noted that tax resistance is not only bad for the tax administration, but it is also dangerous for the overall social cohesion. Tax resistance is a sign of the refusal of the current policies both fiscal and otherwise. If escalated, tax resistance might lead to a tax revolt, as was the case in France in the 18th century that eventually led to the French Revolution, and as was the case for the tea tax and the American Revolution of 1765. A local example of a Tunisian tax revolt is that led by Ali Ben Ghdhehom in 1864, against the doubling of taxes that took place in 1858 following the public finance policies imposed by Mustapha Khaznadar.

45 مروان مبروك واسترجاع الأموال المنهوبة: الفساد القويّ والدّولة الضّعيفة, Manel Derbali. Nawaat.org, 11 June, 2020

46 Law Draft 104/2020 relating to economic revival, integrating the informal sector, and fighting fiscal fraud

47 Amine Bouzaiene, l'amnistie fiscale en Tunisie, outil de réconciliation ou prime à la fraude ?, Observatoire Tunisien de l'Economie, October 2015, Page 4

48 Articles 5 and 13 of the Law n° 2014-54 dated 19 August 2014, relating to the appropriations law for the year 2014.

49 The annual court of auditors' report 2018, Court of auditors' report on the reginal center of tax audit in Sfax 1. Page 809

However, tax revolts stemming from tax resistance is not simply a product of the past. The Yellow Vests movement in France and the 2019 protests of new taxes in Chile, Lebanon, and Iraq, all are forms of modern tax revolts in the world, that demand more just and equitable policies.

b. OTHER EXTERNAL OBSTACLES:

Other obstacles stand between the tax administration and its ability to properly tackle tax fraud.
One of them is the structure of the economy, particularly the high level of activity occurring in the informal sector. In fact, the informal sector is estimated to employ around 40% of all non-agricultural employees, and 77% of all active young people between the ages of 15 and 29. It also contains around 40% of micro private companies[50], and is estimated to generate around 23.8% of the non-agricultural GDP (2012).[51] This, among other things, is a result of tax resistance, and citizens who reject the current tax system. However, it is also a major obstacle that the tax administration faces in revenue collection. In fact, the size of this underground structure and its complex nature makes it very hard for the tax administration to audit it, or even detect it, especially with its current limited resources.[52]

Another issue is the lack of legal powers to conduct audits. According to international standards, for example, bank secrecy measures have long been passed to allow the tax administration to access company bank statements and other banking related documents.[53] In Tunisia, however, it took until 2019 for the administration to be able to access company bank statements. The weakness of the tax administration may be worsened by the new draft law relating to economic stimulus, integrating the informal sector, and fighting fiscal fraud. In its article 18[54], this law proposes to reduce the maximum duration of in-depth audits from 6 to 4 months, effectively giving an under-staffed and under-equipped institution even less time to carry out its duties.
Furthermore, the abstruse nature of certain laws lends itself to the creation of tax loopholes for certain taxpayers. This legal gray area especially affects sectors such as cement, oil and gas, and the banking sector. This has resulted in a loss of revenue, and long delays in collecting taxes and fines. Such ambiguities are related to tax rates, the legal nature of explanatory memorandums, and the interpretations of certain articles. One case related to memos cost the administration 28.764 MDT. Two cases relating to the interpretation of an article cost the administration 9.087 MDT.[55] Thus tax legislation needs to be reexamined, any loopholes need to be closed off, and grey areas cleared.

The Tunisian cash economy also poses a major obstacle to the tax administration. Cash businesses have been known to go against tax compliance as they "systematically underpay income, employment and sales taxes through income underreporting" .[56] Cash-based transactions are difficult to track and verify, leaving a wide margin for tax evasion.

Another issue is the technocratization of taxation. The subject often remains vague and mysterious to the average citizen and taxpayer. Taxation is rarely if ever discussed in the public sphere. On the rare occasions where it is subject to public scrutiny, fiscal policies are presented as the strict domain of "experts", thus effectively excluding the general public from debating them. This elitist approach (rather than the politization) of the issue led to the erroneous view that taxation is a technical subject, which the average citizen does not have the capacity nor tools to discuss. It is only human nature to not trust something it does not understand.

In conclusion, as explained in this section, the general climate in Tunisia is not conductive to tax compliance and to building a cooperative approach between the tax administration and taxpayers. However, it is important to remember that the issues facing the tax administration are internal as well as external. The next section addresses the problems that occur within the administration itself.

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50 Charmes, Jacques. "La jeunesse tunisienne et l'économie informelle." Bureau international du Travail (2015). Page 12
51 Ibid. Page 30
52 Kayaga, Lisa, and Kathleen Lahey. "Tax policy challenges facing developing countries: A case study of Uganda." (2007), Page 15
53 OECD, The Era of Bank Secrecy is Over, The G20/OECD PROCESS IS DELIVERING RESULTS, October 2011, Page 2
54 Law Draft 104/2020 relating to economic revival, integrating the informal sector, and fighting fiscal fraud, Page 73
55 The annual court of auditors' report 2016, Court of auditors' report on the big enterprises directorate. Page 369.
56 Morse, Susan & Karlinsky, Stewart & Bankman, Joseph. (2008). Cash Businesses and Tax Evasion. 20.

III. INTERNAL OBSTACLES

Aside from having to deal with a hostile external environment, the tax administration also has to grapple with internal problems. While the types of issues are myriad (relating to technology, communication, finance…), this section focuses on three levels: organization, personnel issues, and material resources.
In order to properly assess the internal obstacles faced by the tax administration, we have conducted a few qualitative interviews with current and retired tax agents. This has allowed us to identify some on-the-field problems that they face.

a. ISSUES RELATING TO THE ORGANIZATIONAL FRAMEWORK:

Weak structures in the tax administrations of developing countries are, unfortunately, a recurrent problem.[57] The Tunisian tax administration is no exception. It severely lacks the structures and tools to properly tackle tax fraud. In fact, its structure seems to encourage financial secrecy. According to the International Tax Justice Network's Financial Secrecy Index 2020, Tunisia's Tax administration capacity scored 88 out of 100 making it "Exceptionally Secretive".[58] Figure 11 explains the details of the score.[59]

	INTEGRITY OF TAX AND FINANCIAL REGULATION 11 TAX ADMINISTRATION CAPACITY	
317	*Large Taxpayer Unit: Does the tax administration operate one central unit for large taxpayers (large taxpayer unit, LTU)?	Unknown
400	*HNWI Unit: Does the tax administration operate one central unit dedicated to the taxation of High Net Worth Individuals (HNWI)?	Unknown
401	*Individual TIN: Are all natural persons subject to personal income tax provided with unique and mandatory Taxpayer Identifier Numbers (TINs) which are mandatory for filing their tax returns?	Unknown
402	*Corporate TIN: Are all legal persons subject to corporate income tax provided with unique and mandatory Taxpayer Identifier Numbers (TINs) which are mandatory for filing their tax returns?	Yes
403	*Taxpayers reporting schemes: Are taxpayers required to report at least annually on certain tax avoidance schemes they have used?	No
404	*Tax advisers reporting schemes: Are tax advisers (who help companies and individuals to prepare tax returns) required to report at least annually on certain tax avoidance schemes they have sold/marketed (if applicable)?	No
405	*Taxpayers reporting uncertain tax positions: Are taxpayers required to report at least annually on details of uncertain tax positions for which reserves have been created in the annual accounts?	No
406	*Tax advisers reporting uncertain tax positions: Are tax advisers required to report at least annually on details of uncertain tax positions for which reserves have been created in the annual accounts of the companies they advised?	No

Figure 11: FSI Tax Administration Capacity (Source: International Tax Justice Network) [60]

57 Supporting the Development of More Effective Tax Systems A REPORT TO THE G-20 DEVELOPMENT WORKING GROUP BY THE IMF, OECD, UN AND WORLD BANK. Page 11
58 International Tax Justice Network, "Report on Tunisia", Financial Secrecy Index 2020, (2020). Page 1. https://fsi.taxjustice.net/PDF/Tunisia.pdf
59 For more information on the content of each indicator and the rationale behind it, see the information document: Tax Justice Network "Key Financial Secrecy Indicator 11: Tax Administration Capacity" Financial Secrecy Index 2020, (2020)
60 Tax Justice Network, Financial Secrecy Index 2020.

The first and second indicators relating to large taxpayer unit and unit for high net worth individuals are important because these entities and individuals own a significant portion of national income and wealth, thus posing the greatest risk of revenue loss. In fact, the top 1% in Tunisia holds 10,7% of national income. The top 10% earns 40,7% of national income, while the bottom 50% has only 17,9% of income.[61](Figure 12)

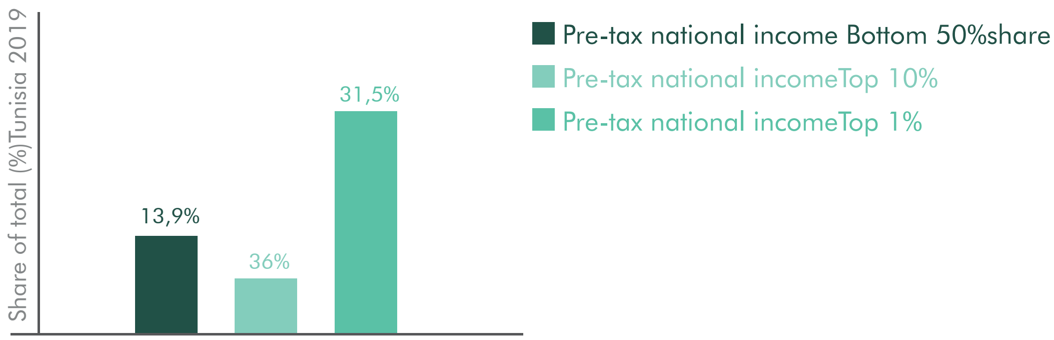

Figure 12: Income Inequality Tunisia 2017 (source: WID)[62]

The reason they are high-risk is not only related to the concentration of income but also to the resources at their disposal. Large taxpayers also have the best arsenal to contest taxes with top-tier lawyers, accountants, and advisors. The administration needs a specialized unit to deal with that level of expertise. In Tunisia, while we have the big enterprises directorate (Direction des Grandes Entreprises) it is understaffed and untrained. Restructuring efforts failed as we do not even have such a specialized body for high net-worth individuals.

The importance of these bodies become obvious when looking at the revenues collected by the big enterprises directorate. In 2014, the directorate collected 34.86% of all tax revenues [63]-including corporate income tax and VAT revenues. Despite the high-risk factor in the tax compliance of these taxpayers, the rate of preliminary of audits dropped from 24% in 2009 to 8% in 2015 due to the increase of taxpayers and stagnation of the number of agents. The administration was thus forced to prioritize offering services to taxpayers over tax compliance checks.[64] Restructuring efforts failed as its current organization into four distinct units have failed to improve revenues,[65] highlighting a pressing need to rethink the structure and resources at this directorate.

The indicator of taxpayer identifiers is equally important. They are "a basic building block for data mining and other tools for efficiently analyzing risks, detecting instances of non-compliance and improving information exchange between government agencies. They are therefore an effective deterrent to cross-border tax evasion." [66]

Additionally, a strategy should be enacted, making reporting on tax avoidance schemes mandatory for taxpayers and tax advisors, in order to fight aggressive tax planning. This is crucial for several reasons including but not limited to:

- Helping the tax administration identify areas of uncertainty in the tax law,
- Allowing the administration to assess the risks posed by these schemes before the tax assessment is made and to focus audits more efficiently, and

61 World Inequality Database, Income inequality Tunisia, 2017, wid.world, https://wid.world/country/tunisia/
62 Ibid.
63 The annual court of auditors' report 2016, Court of auditors' report on the big enterprises directorate. Page 358
64 Ibid, Page 359
65 Ibid 363
66 Tax Justice Network "Key Financial Secrecy Indicator 11: Tax Administration Capacity" Financial Secrecy Index 2020, (2020)

• Deterring taxpayers from using these tax schemes.

Another major factor in improving tax administration capacity is for taxpayers and tax advisors to report any uncertainty regarding tax laws and positions. This information will mitigate any risk of falling into fraudulent or aggressive tax avoidance schemes, and again allow the administration to address any ambiguity in the law or practice of collecting tax revenues.

Another organizational and strategic issue to take into account is how to prioritize tax audit cases. Certain criteria are more important than others, as can be seen in Box 1.[67]

All indicators above clearly show that the Tunisian administration is not equipped with the necessary structures and powers to properly handle complex cases of tax fraud.

BOX 1: CRITERIA FOR CHOOSING AUDIT CASES

For the big enterprises directorate.

- The criteria for picking cases is essential. Preliminary checks on incentives that result relating to corporate tax accounted for only 3.08% of the total audits conducted. However, these numbers remain very low, especially since the results of audits related to corporate tax alone accounted for 11.466 MDT or 13.73% of the total result of all preliminary checks during that period
- 24.26% of companies active in the oil sector, and 20.22% of investment companies have never been subject to in-depth audits. Additionally, the status of limitations has expired on the taxes of 270 companies from 2010.
- Cases relating to prioritization by sector of activity account for only 6.22% of all auditing operations, despite the fact that the 18.02% of the results of tax audits are related to the finance and communication sector, while 43.35% of them are related to the oil and gas industry. In fact, of the 125 companies that operate in the sector, only 58 were subject to an in-depth audit between 2010 and 2014. Despite the complexity of the sector, its incentives, and its tax regime, the number of investigators assigned to these cases was 6 at most.
- For the Tax Center Sfax 1:
- The reporting mechanism ("Wichaya") is disproportionally represented as a criteria on which one can choose cases to investigate, and this despite its ineffectiveness. The average return of cases on the basis of this mechanism in 2013 was 25680 DT, significantly lower than the average of all other cases which is at around 59180 DT.

67 Based on the results of the annual court of auditors' report 2018, Court of auditors' report on the reginal center of tax audit in Sfax 1, pp 792-828, and The annual court of auditors' report 2016, Court of auditors' report on the big enterprises directorate, pp 357-396

b. ISSUES RELATING TO HUMAN RESOURCES:

Human resources in the Tunisian tax administration suffer from many issues. Chief among which is under-staffing.

Human resources, as they stand now, are not able to deal with the high rate of fiscal fraud that exists in Tunisia. To deal with nearly 700,000 taxpayers (692,308 as of 2019), in 2012, the administration counted only 4500 tax collection agents, out of which only 69% were directly in charge of tax collection operations. These agents are distributed among 241 tax offices across the country. In terms of tax audits, the administration counts only 3400 agents, of which only 48% are directly in charge of tax audit operations.[68] Out of these 1600 agents in charge of tax audits, only 450 of them specialized in in-depth audits.[69]

This lack of human resources leads to a very low rate of tax collection and equally low number of audits. Despite the prevalence of tax fraud, especially fraud as clear as failure to file tax returns, the Ministry of Finance conducted in 2012 only 450 in-depth audits on the 9610 companies whose annual turnover exceeded 1 million dinars[70]. The consequences of such a policy are discussed though a particular case of understaffing at the big enterprises directorate is discussed in Box 2.[71]

BOX 2: THE CASE OF THE BIG ENTERPRISES DIRECTORATE

- The number of agents at the end of 2014 was 46 agents. The number of agents in 2015 remained the same while the number of taxpayers increase from 1766 companies in 2014 to 2009 companies in 2015.
- Number of taxpayers went from 1010 in 2009 to 2009 in 2015 whereas the number of investigators dropped from 25 in 2009 to 24 in 2015.

The rate of preliminary audits dropped from 24% in 2009 to 8% in 2015 due to the increase of taxpayers and stagnation of the number of agents. The administration was thus forced to prioritize offering services to taxpayers over tax compliance checks.

This lack of human resources makes tax agents overwhelmed thus increasing the likelihood of errors, and might even prompt agents to finish investigations quickly even at the expense of accuracy. In fact, in one tax collection office in Beja, the average number of receipts collected by a single tax collection agent in 2015 reached 8356.[72]

However, even with the appropriate number of staff, there remains many issues in the governance and structuring of the staff.

68 Ministry of Finance, The tax Administration: Reality and Perspectives, May 2013, PP 5-6.

69 وزارة الماليّة، مشروع اصلاح المنظومة الجبائيّة بوزارة الماليّة، حوصلة لاشغال فريق العمل المكلّف بدراسة مجال تعصير ادارة الجباية ، جويلية 2013

70 Ibid.

71 Box 2 is based on the annual court of auditors' report 2018, Court of auditors' report on the big enterprises directorate, pp 357-396

72 The annual court of auditors' report 2018, Court of auditors' report on the collection office "18 Arbi Zarrouk Street" Béja, Page 739

One of the key problems that we have identified through our interviews with tax agents, is the lack of formal processes.[73] There seems to be no procedure manual, up-to-date or otherwise, to spell out the necessary steps and documents related to each operation, especially in tax collection. Tax agents seem to learn tasks on the job and are usually unaware of changes to procedure, a procedure that does not seem to be spelled out in its entirety anywhere. This makes the job of the tax agents more challenging as they are unaware of, perhaps even unsure about the correct steps of each operation. This often results in errors in the system, delays in processing these operations, etc.

The lack of formalized procedures is made worse by the instability in the administration. With a lack of standard procedure, each new head may change the way of doing things. This, coupled with the lack of internal communication mechanisms[74], makes employees unaware of new procedures and confused about what the new changes imply for them. Additionally, employees usually do not know how much freedom they have in interpreting the legal and administrative texts. This leads to employees possibly violating procedure, not out of malice but simply out of ignorance.

Furthermore, the instability in the leadership of the administration also pushes decision-makers to focus on more short-term solutions whose effects will be manifested immediately but whose scope of impact is limited, rather than long-term profound reforms.

The absence of clear procedures aggravates the effects of other issues such as the lack of the transfer of knowledge or capitalization of knowledge from older, more experienced, and better performing staff. This makes the departure of these veterans all the more dramatic for the loss of knowledge that it causes. Because of the complexity of the tax system and the diversity of tax evasion and tax fraud schemes, tax agents are in need of the experience and wisdom of their predecessors. However, any such operation of knowledge sharing seems to be absent from the administration. This gap of knowledge may be filled, if not by a formalization of the knowledge of former agents or by a mentorship program, then by other types of training.

However, training for tax agents seems to be riddled with problems.

It is important to note that human resource management in the tax administration needs to become more than simply paper processing. Agents are in need of training, be it technical, psychological, and otherwise, in order to help with a highly-stressful job. However, several issues arise. The first is the lack of expenditure that is reserved for it[75]. Another is that it is not equitably distributed among regions. While some trainings do take place on a local level. Most of the high-level trainings happen at the national school of finance (l'Ecole nationale des finances) in Tunis and last several days. This establishment is not only underfunded -with a budget of only 425 000 Dinars for 2020[76], its centralized location also makes it incredibly difficult for tax agents from outside the capital city to attend trainings in it, especially considering the difficulty of transportation and the lack of accommodations. The trainings also seem to be more theoretical than practical and not in line with the real problems faced by tax agents on the job.

Furthermore, the subjects of training need to be reviewed. Tax agents taking part in our interviews identified several topics missing from their training, or topics for which they felt their training was inadequate, including:

73 Ibid. Page 740

74 Ibid.

75 Ministry of Finance, The tax Administration: Reality and Perspectives, May 2013, Page 7.

76 The Ministry of Finance's Budget 2020, P 393

- The application texts of tax legislation
- The law: where do cases go after treatment, the deadlines for treating cases…
- Risk management
- Stress management
- Languages
- New tax evasion and fraud schemes: the digital economy, transfer pricing, etc.

Tax agents not only lack training, but also lack security when performing their tasks.[77] Tax agents reported feeling unsafe and experiencing or witnessing physical and verbal abuse when carrying out their duties, especially in-depth audits, in dangerous neighborhoods and/or in isolated locations. The risk factor is worsened by the fact that agents are usually sent out on these missions alone.[78]

However, the lack of security is not only related to the nature of the job but also related to the lack of available material resources, -as we will explore in the next section. The lack of vehicles for agents for example, prompts them to use their own personal cars to go to the places they need to investigate, often at great cost to their vehicles. It also forces them to use their cars to transport a significant amount of cash at the end of the day to the post office, running the risk of being ambushed. If an account turns out to not match the amount of cash, they are legally obliged to make up for the difference out of their own pockets.

Box 3 discusses these obstacles and their impact on the performance of the tax center in Sfax 1.[79]

BOX 3: THE CASE OF THE TAX CENTER SFAX 1

- The number of agents has decreased from 184 in 2013 to 163 in 2017 despite the fact that taxpayers increased from 38844 to 47039 over in that same period (an increase of 21%). Only 97 of the 163 agents were affected to the tax audit offices. And, only 15 were investigators.

- There were 2797 cases of inconsistencies in the declared revenue for companies that agents have identified, 36 of them were recurrent in the taxpayers for four years. However due to a lack of human resources, only 113 audits were scheduled for them, i.e. 4% of all identified cases.

- The vacancy of 6 posts, that have lasted up to 5 years in some cases, have had a negative impact on office performance. For example, the one-year vacancy of the position of the director of the center has resulted in the inability of the center to sign off on certain decisions. This in turn led to a loss of revenues of 4.5 million dinars.

- The center lacked a driver making it harder to use the 7 administrative vehicles affected to the center.

- The lack of a data entry officer led to the non-digitalization of all contracts and documents filed at the center for the years 2013, 2014, and 2015, thus preventing agents from accessing vital information to conducting their duties.

77 وزارة الماليّة، مشروع اصلاح المنظومة الجبائيّة بوزارة الماليّة، حوصلة لاشغال فريق العمل المكلّف بدراسة مجال تعصير ادارة الجباية ، جويلية 2013

78 Having only one tax agents carrying out an investigation is also generally ill-advised as it increases the risk of corruption.

79 Box 3 is based on the annual court of auditors' report 2018, Court of auditors' report on the reginal center of tax audit in Sfax 1, pp 792-828

- Certain structures within the administration were not created, despite their legal and operational mandate being announced, because of a lack of human resources. Such was the case of "the data collection and investigations office", which deprived the administration of crucial information that could have helped improve their revenues.

- The agents did not enjoy trainings on the new laws and regulations relating to the finance law in effect, making them unaware of certain new tools at their disposal including the provision against bank secrecy.

- The wrongful or inadequate use of legal powers entitling them to access up-to-date information from taxpayers led to a decrease in revenue. In a sample of just 5 cases, this has led to the results in taxes and fines to be reduced by 67% (going from 625,000 DT to 209,000 DT), and a delay in the ratification of decisions in these cases between 120 days and 1049 days.

Aside from being severely deprived of the necessary human resources and the much-needed training, the tax administration also suffers from an acute shortage of material resources.

c. ISSUES RELATING TO MATERIAL RESOURCES:

The tax administration has to deal with a dearth of material resources.

During our interview, agents identified a scarcity in a pot of resources including cars, printers, computers, and even tools as simple as paper, forms, and measuring tapes. This perceived shortage is backed up by number. In 2013, the tax administration counted only one computer per 3 agents and one car per 16 agents.[80] The situation has not improved since, as the Sfax 1 center, for instance, only has 7 cars for 167 agents, or one car per 23 agents.
The Tunisian tax administration also suffers from an archaic information system that has cost the administration on several fronts, from different systems that remain unrelated and uncommunicative with each other, to network problems, to old equipment, to a complete lack of equipment including computers, etc.

In Sfax 1 for instance, the registrar's tasks are done manually due to the lack of an in-house digital application for it. This has a negative impact on the effectiveness of the memos they send to the central administration and monitoring the status of their correspondence. The growth of physical copies of correspondence has also caused an archive management problem.[81] Additionally, in violation of annual performance projects, agents were not equipped with laptops containing the necessary administrative applications to conduct on-the-ground work and instantaneously access necessary information to evaluate and register observed tax violations.[82] This lack of digital equipment leads to significant financial losses. In fact, in Sfax 1, the lack of communication between the framework "Rafik"[83]and "Sadek"[84]prevented tax agents from identifying inconsistencies in declared corporate revenue. The inconsistencies are estimated at 1.88 million dollars.[85]

80 Ministry of Finance, The tax Administration: Reality and Perspectives, May 2013, Page 7.
81 The annual court of auditors' report 2018, Court of auditors' report on the reginal center of tax audit in Sfax 1, Page 797
82 Ibid. Page 800
83 Rafik = System for streamlining the management of taxation and public accounts
84 Sadek = Decision-making management system for tax compliance control
85 The annual court of auditors' report 2018, Court of auditors' report on the reginal center of tax audit in Sfax 1, Page 799

The lack of a matrix that allows the administration to evaluate the risk of tax fraud by taxpayers such as those related to a decreased margin of profit, or a chronic loss, or chronic tax credit. Cases related to these indicators only comprised respectively 5.54%, 5.27% and 3.244% of cases treated between 2010 and 2014.[86]

All these factors, in addition to low wages, lead to a weak tax administration staff incapable of tackling the breadth and depth of tax fraud in Tunisia. In fact, all these obstacles, coupled with relatively low wages, might, not only reduce voluntary and enforced tax compliance, but might also actually exacerbate the problem of corruption in the Tunisian tax administration

86 The annual court of auditors' report 2016, Court of auditors' report on the big enterprises directorate. Page 359

CONCLUSION

The Tunisian context is characterized by an environment of tax resistance that stems from various factors such as tax injustice, judicial lax in dealing with fiscal issues, the deteriorating state of public services, etc. The lack of consent to taxation has translated to the prevalence of tax fraud both on the national and the local level. This phenomenon is leading to immense losses of national revenues and thus to a lack of funding for public services such as health, education, and infrastructure. It also leads to an increasing reliance on debt to cover these losses.

The body that is most competent to handle this issue is the tax administration. However, it seems to suffer from many issues. Some are related to several restraints of its powers to investigate possible tax evasion and tax fraud. Others are related to the lack of the right units to target high-risk, high-income entities. Others still are linked to its human resources. The latter seems to be lacking both in number and in training. Additionally, they face a lack of security and lack of clear directives as they carry out their duties. Furthermore, the administration is experiencing a crying need for material resources including basic office equipment and for a more modern information system.
To address these issues, this paper presents the following recommendations based on the previous analysis.

RECOMMENDATIONS:

In Addressing External Factors:

More equitable tax policies:

Taxpayers are more likely to voluntarily pay taxes if they perceive that policies for tax collection methods are just and equitable. In order to improve fiscal justice in Tunisia, it is important to pass reforms. These reforms include reviewing the law corporate tax rates, in order to increase tax revenues of corporate income tax, and to dismantle the overly-complicated, and largely-ineffective tax incentives system. It is also important to adopt a more progressive income tax system with more brackets, more progressive rates and a higher marginal tax rate that targets the high-net worth individuals. It also includes aligning capital gains revenues on the brackets of the regular income tax.

A progressive wealth tax also needs to be adopted to address the profound inequalities in the Tunisian society and redistribute resources equitably.

Other reforms include lessening the reliance on regressive taxes such as VAT. This will entail exonerating first-necessity products from this tax and possibly creating a new rate for luxury products to target the consumption of wealthy individuals.[87]

Improved public services

Taxpayers are also more likely to voluntarily pay taxes when they witness the positive results of the use of their tax money in the services that they benefit from. Thus, it is imperative for the government to invest further in public services such as health, education, infrastructure, social security, and improve their quality and scope.

More firmness, reactivity, and speed when judging tax fraud cases

In order to show the seriousness of the tax fraud crime, the judiciary should be more reactive in judging cases that include these crimes, especially highly-mediatized cases that affect the public's perception of this subject.

87 This VAT rate existed in Tunisia before, from X to Y, and was of 29% and targeted such products as high-grade cameras, wristwatches, pianos, etc. This rate was cancelled by article 13 of the Law N° 2006-80 of the 18th of December, 2006

No more tax pardons

The government should reduce its reliance on tax pardons as a mechanism to enlarge the scope of the tax administration's data. This mechanism has proven to be ineffective and counter-productive, especially in the cyclical manner in which it is used.

In Strengthening Administration Resources:

Structural reforms

The administration would benefit from a restructuring that allows it to have more specialized units that targets more high-income companies and individuals. It is also crucial for it to be infused with the powers necessary to properly conduct its tasks, including tackling tax fraud. These powers include providing it with deeper access to tax planning processes used by companies and that might affect their effective tax rates.

Reinforcing human resources

Many reforms are needed to address the issues faced by tax agents. The first is recruiting more agents. With the extent of tax fraud, new tax agents will more than cover the cost of their recruitment with the results of their work. It is also important to provide them with the necessary funds to conduct much-needed trainings. Additionally, solutions are needed to address the lack of security experienced by tax agents, including sending them on missions in teams rather than individually. Another important factor is formalizing procedures and providing agents with clear job descriptions and an exhaustive list of their duties and powers.

Strengthening material resources

Funds need to be appropriate to improve the material resources of the administration, including modernizing the information system. Further investment is needed in transportation and office equipment to provide a minimum of tools to tax agents to conduct their duties. Resource allocation has to take into consideration regional equity and the specific need of each department and unit.

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