

The Fiscal Implications and Social Effects of the Tax Exemption Policy in the Algerian Economy

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Abstract---The Tax Exemption Policy in Algeria significantly impacts both the fiscal landscape and social dynamics of the nation. This paper explores the policy's implications on government revenue, highlighting potential shortfalls and budgetary adjustments. Additionally, it examines the social consequences, including shifts in economic equity and access to essential services. By analyzing quantitative data and qualitative assessments, the study aims to provide a comprehensive understanding of how tax exemptions influence economic growth and social welfare in Algeria. This multifaceted approach underscores the necessity for balanced policy reforms that align fiscal responsibility with social equity.

Keywords---tax, social, fiscal, policy, Algeria, exemption.

Introduction

Given the complexity of their goals and implementation procedures, as well as their rapid pace, economic, social, and political actions are intrinsically linked. and ongoing growth. This quick progress provides enough justification for regularly evaluating and reviewing economic policies.¹

As part of its economic openness, Algeria has implemented a number of structural changes since the mid-1980s with the goal of reforming the national economy. With a special emphasis on tax policy as a

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major incentive for investment, these modifications were made to boost production and supply, lower the budget deficit, and promote investment.²

The decision to review economic policy is a difficult one that necessitates a thorough examination and assessment of its consequences upon implementation. The tax exemption The goal of the policy is to offer a thorough examination of the tax policy philosophy in Algeria and to evaluate its economic and social repercussions. The key points of this policy are summarized below: the need to strike a balance between accomplishing the state's economic and social objectives and offering the essential incentives to promote long-term growth.³

Based on this, we seek through this study to shed light on Algeria's tax policy by attempting to answer the main question: What do we mean by "tax exemption policy" and "tax policy" in general? How does this affect the economy of the nation? What about the social circumstances? We will discuss the following topics in order to answer this question:

1/Definition of taxation and its economic and social objectives:

1/1/1 Definition of tax:

A tax is defined as a sum of money imposed by the state on individuals or institutions, and the taxpayer is obligated to pay it without receiving a direct reward. The purpose of a tax is to enable the state to achieve its general objectives, whether economic, social, or political. It is a mandatory duty that the taxpayer cannot refrain from paying. With the tremendous development witnessed by taxes, they are no longer merely a means of generating funds; they have become a tool for achieving many comprehensive development goals.⁴ Within the framework of the tax exemption, the state uses tax breaks to accomplish a variety of goals. researchers have defined policy in a variety of ways, including as "the state's waiver of the right to impose taxes on. " It is either a permanent or a temporary exemption for certain taxpayers for a certain amount of time in return for their pledge to engage in a particular activity under particular conditions."⁵ It is also known as: The art of imposing taxes in a way that enhances the efficiency of the economy and ensures a fair distribution of income. It is the exemption of the state's right to some taxpayers from the amount of taxes that must be paid in exchange for their commitment to practice a certain activity under specific conditions. This helps the taxpayer increase his net income after tax, and this depends on the importance of the activity, its size, its geographical location and its scope. The exemption period ranges from two to five years."⁶

It also refers to a strategy used by the government to forego its authority to collect taxes in order to advance certain economic, social, or political objectives. and political objectives in a way that eventually benefits the public, boosts economic growth, and promotes overall development throughout the state, to promote investments that support job creation and output growth.⁷

Tax exemptions are government-approved benefits, outlined in law, given to individuals or organizations. These exemptions are intended to help the government achieve its broader policy goals related to the economy and society.

1/2/Economic objectives of the tax:

- A-** Investment development: This is achieved by reducing the tax burden on institutions, which lowers the costs borne by companies benefiting from tax exemptions. These savings enable them to invest more in their activities and expand their businesses.
- B-** Increasing future treasury revenues: By encouraging investment, tax exemptions contribute to diversifying economic activity and expanding the tax base, which later leads to increased tax revenue due to accelerated economic growth.
- C-** Directing investments towards priority activities: The state seeks to use tax exemptions as a tool to stimulate investment in economic sectors it considers a priority to support sustainable development.

- D-** Attracting foreign direct investment: Tax exemptions encourage foreign investments, especially those that heavily rely on labor, thereby enhancing job creation. They also contribute to encouraging national savings and directing them towards strategic economic sectors.⁸.
- E-** Reducing tax evasion: Through tax exemption policies, a balance can be achieved between financial, economic and social objectives, thus reducing the incentives for tax evasion among individuals and companies.

- Social Objectives of Taxation:

Among the most prominent of these objectives are:

- A - Absorbing Unemployment: Tax incentives help investors achieve tax savings that they can reinvest in new projects, contributing to job creation and reducing unemployment rates.
- B - Achieving Regional Balance: Tax exemptions contribute to revitalizing and developing economically deprived areas, helping them catch up with more prosperous regions. This leads to enhancing overall economic prosperity, reducing rural-urban migration, and achieving population stability.
- C - Fair Income Distribution: This is achieved through tax deductions from taxpayers and redirecting them in the form of spending in sectors that benefit everyone, such as health and education, thereby promoting social justice.⁹.
- D - Supporting charitable and development associations: Charities, development societies, and cooperative societies are exempt from taxes, enabling them to focus on achieving their noble goals and serving the community effectively..

2/ Tax advantages granted to activities practiced by qualified young investors : *The National Youth Employment Agency – example:*

2/1/ Advantages granted during the implementation phase:

- Exemption from property transfer fees stipulated in Article 252 of the Registration Law, for real estate acquisitions made by investors benefiting from the "National Fund to Support Youth Employment" aid to create industrial activities;
- Exemption from all registration fees concerning the founding contracts of companies established by investors qualified to benefit from the "National Fund to Support Youth Employment" aid;
- Exemption from value-added tax on the acquisition of locally produced goods and services that directly contribute to the creation or extension of an investment activity when carried out by investors qualified to benefit from the "National Fund to Support Youth Employment" aid. Passenger cars can benefit from this exemption when they are a primary means of the activity.¹⁰;
- Investors utilizing the "National Fund for Youth Employment Support" to establish or grow their business can import essential equipment for their investment project with a reduced customs duty of only 5%. This applies only to equipment directly used in the project. Passenger vehicles are eligible for this reduced duty only when they are demonstrably crucial for the business's operations.

2/2/ Benefits granted during the exploitation phase:

- Total exemption from the total income tax or the corporate profits tax for a period of three (03) years. beginning From the date of commencement of the activity, when these activities are located in areas that must be upgraded and are included in a list determined by regulation, the exemption period is set at six (06) years starting from the date of exploitation and for a period of ten (10) years for those located in areas that benefit from the "Special Fund for the Development of the Southern Regions" subsidy. This period is extended for two (02) years when investors commit to creating three (03) jobs for at least an indefinite period;
- Exemption from the professional activity tax for a period of three (03) years from the start of the activity. When these activities are carried out in areas that must be upgraded, the exemption period is extended to six (06) years and to ten (10) years for those located in areas that benefit from the "Special Fund for the Development of the Southern Regions" subsidy; Exemption from the real estate tax on built property and buildings in which activities are carried out by investors eligible to benefit from the

“National Fund for the Support of Youth Employment” subsidy. For a period of three (03) years, starting from the date of completion. This period is extended to six (06) years when buildings and building extensions are located in areas that must be upgraded, as well as for those located in areas that benefit from the “Special Fund for the Development of the High Plateaus” subsidy, and to ten (10) years when buildings and building extensions are located in areas that benefit from the “Special Fund for the Development of the Southern Regions” subsidy. After the end of the exemption period:

- Activities carried out by qualified young entrepreneurs benefit from the “National Fund for Youth Employment Support” subsidy, a reduction in the total income tax or the corporate profits tax, as the case may be, as well as in the professional activity tax due at the end of the exemption period stipulated in the applicable tax legislation, during the first three (30) years of taxation, and this reduction shall be as follows:

- First year of taxation: 70% reduction;
- Second year of taxation: 50% reduction;
- Third year of taxation: 25% reduction; you also benefit from these reductions for the next stage.

The remaining activities mentioned above that benefited from the exemption and whose reduction period is still valid, do not have the possibility of claiming a refund of what was paid. Note that:

Tax benefits are granted to young investors within the framework of the Investment Support Fund based on the percentage of integration of locally manufactured materials (Article 74 of the 2014 Finance Law).

The benefits granted under the National Microcredit Support Fund may only be accumulated if the matter relates to the extension of production activities.

The interest rate reduction on loans granted by banks has reached 100%.

3/Reasons for the weak effectiveness of exemptions

Taxation stipulated in Algerian law to achieve development:

Algeria's tax exemption policy faces a number of challenges that have negatively impacted its effectiveness in achieving its desired goals, negatively impacting the national economy. The most important of these challenges are as follows:

3/1/Weakness of tax legislation:

Due to the constant changes made to tax legislation through regular and supplementary financial laws, Algeria's tax system is quite volatile. This ongoing change diminishes the effectiveness of these rules and causes greater uncertainty among economic players, especially about tax exemption rules and how they contribute to diversification. the economy of the nation. For instance, the amendments to Article 150 of the Direct Tax Law demonstrate its effects. on the stability of laws due to these frequent revisions.¹¹.

- Article 12 of Law No. 10-14 dated December 30, 2014, includes the Finance Law for the year 2015, Official Gazette No. 78 issued on December 31, 2014, amending Article 150 of the Direct Taxes and Similar Fees Law, p.52.
- Article 2 of Order No. 01-15 dated July 23, 2015, including the Finance Law for the year 2015 - Official Gazette, No. 40 issued on July 23, 2015 Amending Article 150 of the Direct Taxes and Similar Fees Law, p. 6.

The direct tax law and similar fees related to the corporate profits tax, particularly the amendment made pursuant to Article 12 of the Finance Law of 2015, amended the corporate profits tax rate from 19% to 23% as a general rate without discrimination based on the nature of the activities subject to it. The aim of this measure was to simplify tax procedures and avoid the problems faced by the tax administration in determining the tax base, particularly with the application of the two previous rates (19% and 25%), particularly when it comes to companies practicing multiple activities, according to the justifications of the public authorities.

However, these provisions were amended again in the same year under the 2015 Supplementary Finance Act, whereby three different rates were adopted.:

- 19% lower rate of goods-producing activities.
- An average rate of 23% for construction, public works, irrigation, and tourism activities (excluding travel agencies).
- 26% higher rate for other activities.

Subsequently, the provisions of Article 15 of the Finance Law of 2021 confirmed this changing trend, reflecting a contradiction with previous measures.¹² This constant change in legislation undermines the confidence of businesses and investors in the tax system, including tax exemptions, reducing their effectiveness in stimulating economic development.

3/2/Reasons related to the nature of tax exemptions:

The large number of agencies in charge of administering tax exemptions, including the National Investment Management Agency, the National Agency for Youth Employment Support in the case of small enterprises, the Tax Administration complicates things and makes it hard to comprehend the requirements for taking advantage of these exemptions. This is because these organizations are poorly coordinated and regulated by a wide range of laws, including financial laws, decrees, and the Investment Law. In addition, it's hard to figure out the cost of tax breaks because there's a clear absence of transparency in the regular and thorough disclosure of this information. Compare their benefits with their real costs. This results in a lack of transparency in choices regarding the continuation, termination, or extension of exceptions, as well as other factors. given the challenge of guaranteeing that these exemptions are given to those who are eligible, particularly in light of the widespread administrative misconduct in the tax administration.¹³

The tax exemption policy's ability to promote development has been reduced by all of these factors. The state gives up a lot. tax resources without producing tangible returns, which has a detrimental impact on the public purse. This also has detrimental effects on the national economy by fostering the growth of economic crimes.¹⁴

Conclusion

Algeria's tax system is a vital instrument for fostering economic and social progress, but it is beset by major issues that call for extensive changes. A plan that involves improving the tax system, battling corruption, and diversifying is essential to finding a balance between promoting economic growth and promoting social justice. revenue streams outside of oil. Tax evasion, a heavy dependence on the hydrocarbon industry, and an informal economy are just a few of the problems Algeria faces.

In order to implement an effective tax policy successfully, it is essential to undertake significant reforms in the tax system, increase transparency, expand the tax base, and do other things. tax base, and guarantee an equitable distribution of the tax burden across all social strata. The following are a few of the recommendations that can be made:

- Change the tax system by including taxes in the Climate Investment Year, which includes interconnected components like political stability, infrastructure supply, and currency stability, among others.
- Tax-collecting mechanisms and efficiency will be improved by simplifying tax processes and lowering red tape.
- Improving transparency by establishing reliable taxpayer databases.
- Promoting compliance among small and medium-sized businesses while broadening the tax base.

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