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Analysis of the tax structure and system in Algeria: A study of challenges and risks in the context of legislative reforms

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Abstract---This study aims to analyse the tax system in Algeria, focusing on its components, legislative reforms, and the challenges it presents, particularly for small and medium enterprises (SMEs). The research employs a descriptive and analytical methodology to assess the effectiveness and efficiency of the tax system amidst continuous legislative amendments and their impact on both businesses and the broader economy. By evaluating the legislative framework, tax structure, and administrative processes, the study seeks to identify key issues that hinder optimal tax collection and compliance. The primary finding of this research is that the frequent amendments to tax legislation, coupled with the complexity of tax procedures, have created an environment of uncertainty and confusion, particularly for SMEs. This has led to increased difficulties in tax compliance and administration, thus undermining the overall effectiveness of the tax system.

Keywords---tax system; legislative reforms; Small and Medium Enterprises (SMEs); tax compliance; tax efficiency.

I. Introduction:

The Algerian tax system is a critical element in the country's economic structure, as it serves as the primary mechanism for financing public services, infrastructure, and development projects. Over the

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years, the tax system has undergone several reforms intended to improve efficiency and equity in tax collection. Despite these efforts, the system remains complex and challenging, particularly in the context of frequent legislative changes and adjustments to tax laws. This complexity has profound implications not only for taxpayers but also for the broader economy, as it hampers compliance and creates uncertainty for both businesses and individuals.

The continuous evolution of tax legislation in Algeria, characterized by frequent amendments and the introduction of new tax frameworks, poses significant challenges for the tax authorities and taxpayers alike. Small and medium enterprises (SMEs), in particular, are adversely affected by these ongoing changes. The lack of consistency in tax policies, coupled with the complexity of tax regulations, makes it difficult for SMEs to comply with their tax obligations. This creates an environment of confusion and potential non-compliance, which in turn may affect the country's overall tax revenue collection.

Given the importance of the tax system in driving economic development and fiscal sustainability, this study aims to analyse the components, challenges, and risks associated with Algeria's tax framework. Through examining the legal, structural, and administrative aspects of the system, the research will explore how recent reforms have shaped the operational landscape. Additionally, it will assess the implications of these reforms on different sectors, focusing particularly on SMEs, and propose potential solutions for improving the clarity, efficiency, and stability of the tax system.

Problem Statement: To what extent can the tax system in Algeria achieve tax justice and efficiency in tax collection amidst frequent amendments and continuous reforms? How can the challenges arising from these amendments be overcome, especially for small and medium enterprises (SMEs)?

Objectives of the Study:

- **Analyse the Tax Structure in Algeria**: Study the components of the tax system and the elements that form the legal and executive framework of this system.
- **Evaluate Legislative Reforms in the Tax System**: Examine the recent amendments made to the tax laws and assess their impact on the effectiveness of the tax system.
- **Analyse the Challenges and Risks Arising from the Tax System**: Evaluate the difficulties faced by businesses, particularly SMEs, due to the repeated amendments and instability in tax legislation.
- **Propose Solutions to Simplify the Tax System and Improve its Efficiency**: Provide recommendations based on the analysis of the current tax reality and its reforms.

Hypotheses:

- **The Direct Impact of Legislative Reforms on Tax System Efficiency**: It is believed that frequent amendments to the legislation contribute to the complexity of the tax system, which negatively affects the efficiency of tax collection.
- **Significant Difficulties in the Application of the Tax System by SMEs**: SMEs face challenges related to understanding and applying the constantly changing tax systems, hindering their development.
- **Legislative Stability Leads to Improved Tax System Performance**: The hypothesis assumes that the introduction of stable and clear tax laws would encourage businesses to comply with tax regulations, thereby enhancing public revenue.

II. The first section: Components of the Tax System in Algeria

The tax system in Algeria is a complex and multi-faceted framework that operates within a legal and technical context to facilitate tax collection and regulation. It plays a crucial role in the functioning of the state, ensuring that taxes are levied and managed in accordance with the law.

1-The tax system in its narrow sense
A set of legal and technical rules that enable tax deduction at an ideal stage of legislation, from assessment, regulation, and collection. It represents the system that governs the rights and privileges of the tax administration in terms of its authority to apply tax laws through the stages of the tax process, namely assessment and collection. (Ammar & Ammar, 2023)

2-Components of the Tax System in Algeria
The tax system in Algeria consists of four main interrelated elements, which do not deviate from this framework. These elements are as follows:

A. **Tax Legislation**: The tax legislation in Algeria encompasses several laws that derive their legitimacy from constitutional principles. Therefore, the laws regulating the tax domain are as follows:
   - **The Constitution**: Various post-independence Algerian constitutions, from the 1976 Constitution to the 2020 Constitution, have included regulations regarding the tax domain by defining the key pillars of tax liability. Article 82 of the 2020 Constitution stipulates that no tax may be levied except by law, and it further states that all taxpayers are equal before the tax, with the law determining the conditions for full or partial exemptions. It also considers the payment of taxes as a civic duty and, in order to ensure transparency in the tax process, this article specifies that no tax, levy, or duty can be applied retroactively.
   - **Tax Laws**: These include various laws issued by the legislative authority that govern tax liability and the procedures associated with it. These laws include:
     - **Direct Taxes and Similar Fees Law**: This law covers various aspects related to taxes collected for the state, including the tax on total income, corporate profits tax, training fees, and the professional activity tax introduced in 2022, as well as local taxes such as the tax on professional activity.
     - **Sales Turnover Tax Law**: This law governs the application of value-added tax (VAT), its rates, deduction processes, as well as the procedures for declaration and payment of this tax and the penalties in case of non-payment.
     - **Indirect Taxes Law**: This law addresses the provisions concerning indirect taxes and their application, including taxes on beverages, alcoholic drinks, security deposits, gold, silver, and platinum goods, petroleum products, gunpowder, dynamite, explosives, and health taxes on meat.
     - **Registration Law**: This law includes provisions on the rates, percentages, and procedures for paying tax rights to the public treasury when transferring ownership or other related property rights.
     - **Stamp Law**: This law regulates tax provisions related to administrative and professional documents (e.g., ID cards, passports, judicial decisions, commercial registers), as well as taxes related to vehicle license plates.
     - **Tax Procedures Law**: Established in 2002 under the Finance Law for that year, it includes various procedures for determining the taxable base, tax control measures, and procedures for tax disputes, including tax assessment, collection, issuance of tables, and enforcement measures, such as the temporary closure of a business or sale procedures to recover tax debt.

In addition to the main legislation (the constitution and tax laws), there are also laws related to the tax domain, such as those governing the tax administration, customs law, various instructions issued by the Ministry of Finance, and tax agreements entered into by Algeria with other countries.

B. **Tax Structure**: The tax structure in Algeria is a mixture of direct taxes, such as income tax, corporate profits tax, and the unique flat tax, and indirect taxes, such as value-added tax (VAT), internal consumption taxes, and customs duties, among others. In this context, progressive taxes are used for income tax and wealth tax, while proportional taxes apply to corporate profits tax, VAT, the unique flat tax, and the professional activity tax.

C. **Tax Community**: The tax community encompasses all individuals with tax residence in Algeria, whether nationals or foreigners, as well as those who do not have a tax residence in Algeria but derive income from Algerian sources.

D. **Tax Administration**: The tax administration in Algeria consists of various government entities that are responsible for the financial affairs of the state, including the Ministry of Finance and various agencies established for tax purposes. These agencies oversee the collection of various taxes and the application of fines for those who violate tax legislation. There are central and external bodies within the tax administration, where the central bodies are represented by the General Directorate of Taxes with its eight regional branches, in addition to the powers of the Minister of Finance in the tax domain. The external bodies are spread across the country and include (Qashi, 2022) :
   - Directorate of Large Enterprises
   - Nine regional tax directorates and regional information and documentation centres
   - Three regional offices for audits and inspections at the national level
   - Provincial tax directorates, located in the provincial capitals
   - Tax centres and neighbourhood tax centres, distributed across districts and municipalities.

3- **Types of Tax Systems in Algeria**

The tax system in Algeria is based on the principle of multiple tax regimes, aimed at aligning its provisions with the diversity of economic activities and the categories of taxpayers. These systems are as follows:

A. **The Single Flat Tax**: The single flat tax was established under Article 282 bis of the Finance Law of 2007 to replace the previous flat-rate system, which applied taxes on total income and corporate profits. It also covers the value-added tax and the professional activity tax, in addition to the income tax and corporate profit tax. One of its key features is the unification of the turnover threshold for both production and sale of goods and the provision of services. However, the legislator did not provide a clear and explicit definition of this tax, but merely mentioned the collection method and the individuals subject to it. (Kandouli & Mushta, 2023)

B. **The Real Tax System**: The real tax system is defined under Article 121 of the Finance Law of 2023 for the year 2024 as follows: "An accounting system based on accurately recording all commercial transactions, whether sales, purchases, or expenses, using regular accounting records." Taxpayers who engage in commercial, artisanal, industrial, agricultural activities, or the provision of services, and who achieve an annual turnover of no less than one hundred million (100,000,000) dinars, are subject to the real tax system starting from the fiscal year 2024. (Finance Law, 2023, Article 121, as amended by Law No. 01-20, March 3, 2024)

C. **The Simplified Tax System**: The simplified tax system, as defined in Article 343 of Law No. 13-03 dated March 3, 2013, concerning finance, is an optional tax regime offered by the General Directorate of Taxes to small businesses. Prior to the 2024 Finance Law, small businesses, whether newly established or existing, with an annual turnover not exceeding five million (5,000,000) Algerian dinars, were subject to the simplified tax system. After the 2024 Finance Law, small businesses, whether newly established or existing, with an annual turnover not exceeding seven million (7,000,000) Algerian dinars, will be subject to the simplified tax system.

4-Evaluation of Tax Obligations in Algeria

Taxes are one of the most significant sources of government funding, used to finance public services, infrastructure, and other expenditures. The types of tax obligations imposed by countries on their citizens and residents vary, depending on the nature of the activity or income subject to taxation.

4.1 Direct Tax Obligations

These are obligations directly imposed by the state on individuals and businesses based on the income they generate from their various activities. In fiscal law, these are referred to as direct taxes.

A. **Definition of Direct Taxes**: Direct taxes are those imposed on income or wealth, collected directly from the taxpayer. This means that the state compels the taxpayer to pay the tax without any intermediary. The Direct Taxes and Similar Fees Law (Executive Decree No. 19-275, dated 20 July 2019) defines direct tax obligations in Article 3 as follows: "Direct tax is one that is imposed on income or wealth, and is collected directly from the taxpayer. (Meziani, 2020, p. 12)

B. **Types of Direct Taxes According to Tax Base**: In Algeria, direct taxes are classified into two main categories based on the tax base: direct taxes on profit (income tax and corporate tax) and direct taxes on turnover (the professional activity tax). In addition to these primary categories, there are other types of direct taxes imposed on specific tax bases, such as property tax and the flat-rate tax.

4.2 Indirect Tax Obligations

A. **Definition of Indirect Taxes**: Indirect taxes are mandatory charges imposed by the state on goods and services. The burden of the tax falls on the final consumer, in an indirect manner, with the supplier initially bearing the tax burden before transferring it to the consumer when the goods or services are sold. (Algerian Official Journal, 2019)
Indirect taxes are defined as obligatory charges imposed on goods and services that are consumed or traded within the country. The supplier initially absorbs the tax burden, which is then passed on to the consumer at the point of sale of goods or services.

B. **Characteristics of Indirect Taxes**:
   - **Indirect Imposition**: Taxes are levied on goods and services, not on individuals or legal entities.
   - **Unrelated to the Ability to Pay**: Indirect taxes are generally not imposed based on the consumer's income or wealth. All consumers bear the same tax burden on goods or services, irrespective of their ability to pay.
   - **Non-specific Goals**: Indirect taxes are generally not used to achieve specific goals but are mainly used to generate revenue for the state.

4.3 Other Tax Obligations

In addition to direct and indirect taxes, there are several other tax obligations that individuals and businesses in Algeria must comply with. These obligations include(Algerian Official Journal, 2023) (Algerian Official Journal, 2024):

A. **Other Direct Tax Obligations**: The Direct Taxes and Similar Fees Law defines several other direct taxes, in addition to income tax and property tax. These taxes include:
   - **Capital Gains Tax**: This tax is imposed on profits gained from selling assets such as shares and real estate. The tax rate is 30% of the net profits. Exemptions: Some transactions, such as the sale of a primary residence after five years of ownership, are exempt from capital gains tax.
   - **Stamp Duty**: This is the tax levied on certain legal transactions, such as sale contracts and lease agreements. The tax rate ranges from 1% to 4% of the transaction value, depending on the type of transaction. Exemptions: Certain transactions, such as marriage and donation contracts, are exempt from stamp duty.

- **Property Tax**: This tax is imposed on all properties in Algeria, including residential homes, commercial lands, and industrial buildings. The tax rate ranges from 1% to 3% of the annual rental value of the property. Exemptions: Properties used for religious purposes and those owned by the state are exempt from property tax.
- **Built Property Tax**: This tax is imposed on all buildings in Algeria, including residential, commercial, and industrial properties. The tax rate ranges from 1% to 3% of the annual rental value of the building. Exemptions: Buildings used for religious purposes and those owned by the state are exempt from the built property tax.
- **Inheritance Tax**: This tax is levied on all assets inherited upon an individual's death. The tax rate ranges from 5% to 35% of the value of the inherited assets, depending on the degree of relationship between the deceased and the beneficiary. Exemptions: Inherited assets from a spouse (if the value does not exceed 10 million Algerian dinars) and from children (if the value does not exceed 5 million Algerian dinars per child) are exempt from inheritance tax, as well as properties used for religious purposes, state-owned properties, and assets inherited by charitable organisations or persons with disabilities.

B. **Other Indirect Tax Obligations**: The Law on Indirect Taxes and Similar Fees of 2024 specifies several other indirect taxes, in addition to VAT and customs duties. These taxes include:

- **Excise Tax**: This tax is imposed on certain goods and services, such as alcoholic beverages, tobacco, and luxury products. The tax rate ranges from 5% to 200% of the value of the goods or service, depending on the type. Exemptions: Basic foodstuffs and pharmaceuticals are exempt from excise tax.
- **Stamp Fees**: These are fees imposed on certain legal transactions, such as sale contracts and lease agreements. The fee rate ranges from 1% to 4% of the transaction value, depending on the type of transaction. Exemptions: Certain transactions, such as marriage and donation contracts, are exempt from stamp fees.
- **Customs Duties**: These are fees imposed on goods imported into Algeria. The fee rate ranges from 5% to 30% of the value of the imported goods, depending on the type of goods. Exemptions: Raw materials and industrial equipment are exempt from customs duties.
- **Service Fees**: These are fees imposed on certain services, such as telecommunications services and internet services. The fee rate ranges from 5% to 20% of the value of the service, depending on the type of service. Exemptions: Services such as education and healthcare are exempt from service fees.

III. The second section: Challenges and Risks Arising from the Tax System in Algeria

The Algerian tax system has undergone significant transformations over the years, with numerous changes and reforms aimed at improving efficiency, increasing revenue, and promoting fairness. However, the continuous evolution of tax legislation has introduced complexities that pose considerable challenges for both taxpayers and tax authorities. These challenges are particularly evident in the frequent amendments to tax laws and the complexity of applying these laws, especially for small and medium enterprises (SMEs). Despite efforts to simplify the system, the frequent shifts in regulations have led to confusion and uncertainty, affecting the overall effectiveness of the tax system. The following section examines the key challenges and risks arising from these ongoing changes and their implications for taxpayers and the broader economy.

1-Evolution of Tax Systems in Algeria

Algeria has witnessed a significant trajectory of developments in its tax systems, driven by its efforts to achieve a set of strategic goals. These goals included enhancing tax revenues to finance government expenditures, stimulating development, and achieving tax justice. The following table illustrates the evolution of the tax system in Algeria:

Table (1): Evolution of the Tax System (2004-2023)

Year	Key Development	Reference
2004	Introduction of the new Direct Taxes Law (Law No. 04-11), replacing the Income Tax Law (Law No. 69-29) and the Corporate Tax Law (Law No. 86-12). Simplification of the tax system through reducing the number of income tax categories and unifying tax systems applied to companies.	Direct Taxes Law of 2004
2005	Introduction of a new tax receipt system (DAS) to facilitate the registration and tax declaration process for small businesses.	2005 Finance Law
2006	Expansion of the application of the tax receipt system (DAS) to include more small businesses.	2006 Finance Law
2007	Introduction of the Tax Code (Law No. 07-23), consolidating all provisions of direct and indirect taxes into a single text. Simplification of customs procedures and improved efficiency in customs management.	Tax Code of 2007
2008	Reduction of some income tax and corporate tax rates.	2008 Finance Law
2009	Introduction of a new tax receipt system (DAS) (Law No. 09-08) aimed at improving the tax receipt system and expanding its application.	Tax Receipt Law of 2009
2010	Introduction of a new electronic tax declaration system.	2010 Finance Law
2011	Temporary suspension of the tax receipt system (DAS).	2011 Finance Law
2012	Reintroduction of the tax receipt system (DAS) with some modifications.	2012 Finance Law
2013	Introduction of a new system to combat tax fraud.	2013 Finance Law
2014	Reduction of some value-added tax (VAT) rates.	2014 Finance Law
2015	Introduction of a new tax exemption system for investments.	2015 Finance Law
2016	Review of some provisions of the Direct Taxes Law, including income and corporate tax regulations.	2016 Finance Law
2017	Strengthening efforts to combat tax evasion through increased penalties and new measures to detect tax fraud.	2017 Finance Law
2018	Introduction of a new electronic tax declaration system for businesses.	2018 Finance Law
2019	Review of some provisions of the VAT Law, including expanding the scope of application of the tax and raising some of its rates.	2019 Finance Law
2020	Exemption of certain basic goods from VAT as part of efforts to combat the COVID-19 pandemic.	2020 Supplementary Finance Law
2021	Introduction of incentive measures to support the national economy during the COVID-19 pandemic, including reductions in some fees and taxes.	2021 Finance Law
2022	Review of certain provisions of the property tax law, including increases in some property-related fees and taxes.	2022 Finance Law
2023	Introduction of a new flat-rate income tax for small and medium-sized enterprises.	2023 Finance Law
2024	Introducing measures to expand the tax base, improve tax procedures through the digitalisation of systems, and simplify administrative procedures for taxpayers, along with imposing additional fines to ensure compliance	2024 Finance Law

Source: Prepared by the author

2-Complexities of Tax Systems

The Algerian tax system suffers from numerous complexities that burden taxpayers and hinder the smooth functioning of the economy. These complexities are diverse and affect various aspects of the system:

2.1 Complexity Resulting from Frequent Amendments in Financial Legislation:

A review of financial laws reveals that they often contain numerous amendments, whether related to the tax base, collection methods, or various tax procedures. Each year, some articles are either abolished, modified, or supplemented with new clauses and paragraphs. These frequent amendments contribute to the complexity of the tax system in the following ways (Amira, 2018):

- The continuous adjustments are difficult for both the tax administration and taxpayers to keep up with. Tax legislation is already complex due to its intricacies, and this issue worsens when frequent changes are made annually.
- Frequent modifications to tax legislation create varying legal situations between amendments, especially if changes occur mid-financial year (as seen in supplementary finance laws, where the tax system or rates may be altered). This constant legislative change leads to tax evasion as taxpayers struggle to understand and adjust to the new regulations. In good faith, they may overlook new procedures, exposing them to penalties and fines.
- Frequent amendments result in a sense of uncertainty for taxpayers, making it difficult for them to comprehend the tax situation that will apply to them.

The table below illustrates the number of amendments made to tax laws between 2017 and 2023:

Table 2: Amendments to Tax Laws from 2017 to 2024

Year	Direct Taxes	Indirect Taxes	Registration Fees & Stamps	Tax Procedures	Other Tax Provisions
2017	12	8	3	4	5
2018	9	6	2	3	4
2019	11	7	2	4	3
2020	14	9	3	6	5
2021	10	8	4	5	6
2022	13	7	3	5	4
2023	15	9	4	5	6
2024 (to date)	12	8	3	4	5

Source: Prepared by the authors based on financial laws from 2017 to 2024

2.2 Complexity Resulting from Frequent Changes in Taxation Systems

The frequent changes in taxation systems and related procedures contribute to the complexity of the tax system by making it harder to understand and apply. Issues related to changes in the tax system can be observed in the following cases:

- A person subject to the flat-rate tax is familiar with the procedures for this tax, including deadlines, rates, and payment methods. They understand that if they have a turnover below a certain threshold, for instance, DZD 15 million, they are liable for a certain tax.
- In 2020, this tax system was expanded to include individuals and cooperatives, where the turnover threshold was set at DZD 15 million. In the same year, under Article 14 of the supplementary finance law, professional civil companies conducting industrial, commercial, or craft activities were added to the scope of this tax system.
- By 2021, the scope of this tax system expanded even further to include professional civil companies alongside individuals.
- In 2022, under Article 73 of the finance law, the turnover threshold was reduced to DZD 8 million, extending the scope of taxation to industrial or commercial activities, as well as artisanal cooperatives.
- The expansion of the flat-rate tax system harms the tax collection as taxpayers make incorrect declarations.

- o The broadening of the flat-rate tax system complicates audit and control procedures because those subject to it do not maintain regular accounting or supporting documentation.

2.3 Unstudied Amendments to Certain Taxes

- o In 2020, natural persons and artisanal cooperatives were made subject to the flat-rate tax system when their turnover was below DZD 15 million. In the same year, the scope of this system was extended to include professional civil companies conducting industrial or commercial activities.
- o In 2021, under Article 26 of the finance law, professional civil companies were made subject to this tax system in addition to individuals.
- o In 2022, the turnover threshold was reduced to DZD 8 million under Article 73, extending the system to industrial or commercial activities and artisanal cooperatives.

The expansion of the flat-rate tax system decreases the tax collection due to incorrect declarations from taxpayers. Furthermore, it complicates audit procedures as taxpayers under this system lack proper accounting records or supporting documents.

4. **Amendment to Subcategories of Gross Income**: The subcategories of gross income have been subject to numerous changes. Notably, the following changes occurred:
   - o In the 2021 finance law, the last subcategory was amended and renamed as "capital gains from the sale of built or non-built properties, real estate rights, or the transfer of shares or equivalent securities."
   - o In the 2022 finance law, under Article 2, the separation between industrial and commercial profits and non-commercial profits was re-established after they were merged in 2015.

These frequent changes indicate a lack of a clear vision, as the legislator often cancels or reinstates certain subcategories without consistent logic or clear justification. This inconsistency creates confusion for taxpayers, who struggle to understand the changes from year to year.

3. Challenges Faced by Small and Medium Enterprises in Light of Continuous Changes in Tax Systems

Small and medium-sized enterprises (SMEs) in Algeria face increasing challenges due to continuous changes in tax systems. The tax system is one of the most significant factors influencing investment and expansion decisions for these businesses. However, frequent changes in tax laws and regulations impose a considerable burden on SMEs, hindering their ability to plan and predict their tax costs accurately(Issa Smaïn, 2024).

3.1 Risks Arising from Conflicting Accounting and Tax Obligations for SMEs

According to a study by "Waterhouse Cooper Price", tax risks are classified into two types: specific and general risks.

3.1.1 Specific Tax Risks: Specific tax risks include the following:

1. **Transaction Risks**: When an enterprise engages in various transactions (sales, purchases, mergers, payments, etc.), each transaction is associated with taxes such as value-added tax (VAT), professional activity tax, and others. The more complex, exceptional, and non-routine these transactions (mergers, divestments, etc.) are, the more they lead to tax uncertainty.
2. **Operational Risks**: Operational tax risk is linked to the application of various tax rules and regulations that govern the daily activities of the enterprise. These operations have varying degrees of tax risk, depending on their relationship with the tax administration.
3. **Compliance Risks**: This refers to the risk of non-compliance with tax obligations in accordance with the applicable tax laws and regulations, such as failure to adhere to formalities, deadlines, and other procedural requirements. Non-compliance leads to tax burdens for the enterprise.

4. **Financial Accounting Risks**: Accounting is the primary tool for determining and calculating the tax base, and thus forms the basis for tax audits. The risk of financial accounting arises from the procedures involved in preparing financial statements, including recording transactions and accounting choices (depreciation methods, inventory valuation, etc.).

3.1.2 General Tax Risks: General tax risks include the following:

A. **Portfolio Risks**: Portfolio risk represents the general level of risk and encompasses transaction risks, operational risks, and compliance risks.
B. **Management Risks**: Management risks are associated with poor handling of tax risks previously identified, resulting either from a lack of documentation due to the failure to document these risks and discuss tax risk management policies, especially when key management personnel resign, or from a lack of resources or inadequate competency.
C. **Reputation Risks**: Reputational risk is typically determined by the reputation of the individuals or businesses an enterprise interacts with, including tax administrations, suppliers, customers, and all other parties engaged with the enterprise. A good reputation is one of the most valuable assets for an enterprise within the tax domain. A good reputation is earned by adhering to the tax laws in place, offering assurance regarding the results of tax administration audits.

3.2 Risks Arising from Changes in the Tax System in Algeria

External tax risks have emerged as a result of the internal weaknesses of enterprises. A complex tax system is difficult for businesses to comprehend, which leads to non-compliance with tax obligations.

3.2.1 Risks from the Complexity of the Tax System

The complexity of the tax system makes its implementation more challenging for both the tax administration in carrying out its duties and for taxpayers in fulfilling their tax obligations. Based on this, a complex tax system is one that is difficult to control, leading to an increased risk of tax evasion. The tax risks arising from tax legislation can be summarised as follows:

A. **Multiplicity of Legal Texts**: Tax laws are characterised by their abundance, complexity, and ambiguity. As a result, taxpayers find themselves in a weak position, unable to fully understand their specific tax liabilities, leading to non-compliance with the tax law.
B. **Instability and Ambiguity of Tax Texts**: Tax risks also arise from the continuous changes in tax laws and the varying interpretations of those laws by the tax authorities.

3.2.2 Risks Arising from the Difference Between Accounting and Tax

The tax law mandates the regular keeping of accounts according to accounting legislation and commercial law. The legal recognition of accounting as the basis for determining the tax base implies a focus on the tax base. However, when there is a discrepancy between the tax base and accounting principles, differences naturally arise. These differences are inherent in the divergence in approaches and standards used to measure outcomes. Despite these differences, they do not necessarily imply incompatibility between accounting and taxation.

The differences between theoretical accounting frameworks and their practical procedures, on the one hand, and tax laws with their regulations and instructions, on the other hand, make the accounting profit reported in financial statements (which reflects the accounting system) not necessarily represent the taxable profit used by tax authorities to determine the payable tax. These differences are primarily based on:

A. **Depreciation**: The current tax system in Algeria relies on historical cost-based depreciation methods, such as linear, declining balance, and increasing depreciation. However, the financial accounting system includes new concepts in depreciation accounting for different types of assets. Non-complex assets, for example, cannot be broken down because they do not meet the criteria for registering the asset in the accounting records, unlike complex assets.

B. **Asset Impairment**: A registered asset may lose part of its value at the end of its life cycle. This is known as impairment testing. The enterprise must identify indicators suggesting that an asset will lose some of its value, such as changes in technological or environmental factors.

C. **Research and Development Expenses**: According to international accounting standards, research expenses are recorded as expenses when incurred and cannot be capitalised under intangible fixed assets. However, development expenses, which lead to increased future economic benefits and improved asset performance, are capitalised as intangible fixed assets. This distinction impacts the tax base as research expenses are deductible from the taxable base.

D. **Borrowing Costs**: Borrowing costs are recorded as financial expenses for the period in which they occur. However, if these costs contribute to the generation of future economic benefits, they may be added to the asset's value. In contrast, the tax system does not account for borrowing costs when determining the cost of the asset, considering them as financial expenses that reduce the tax base.

E. **Foreign Currency Conversion**: In the context of financial transparency, international accounting standards require the conversion of foreign currency receivables and payables at the end of each period. Losses are recorded as expenses, while profits are recorded as revenue. The tax system only allows enterprises to report losses from currency conversions.

F. **Changes in Accounting Methods and Error Corrections**: International accounting standards indicate that changes and corrections related to previous periods should be accounted for in the equity section of the opening balance sheet, not as an expense or income. This excludes these changes from the accounting profit used to determine the taxable profit.

3.2.3 Risks Arising from Administrative Jurisprudence

Administrative jurisprudence is a major source of tax risks due to its complexity. Tax law is subject to interpretation, as authorities clarify ambiguous texts using simplified methodologies that make them easier to understand. However, this interpretation process can sometimes exceed its intended role and turn into legislative action, creating new tax laws and turning administrative jurisprudence into an independent source of tax law, separate from the tax codes.

3.3 Consequences of Non-Compliance with Tax Laws by SMEs

Tax legislation stipulates several penalties for taxpayers who fail to meet their tax obligations. Generally, penalties for the corporate tax on industrial and commercial profits are similar to those imposed for penalties related to the tax on corporate profits. These penalties include:

3.3.1 Penalties for Annual Tax Return Delays

A. **Penalties for Late Filing**: If the annual tax return (LIASSE FISCALE + G11) is submitted after the legal deadline of 30th April of the following year, the taxpayer is subject to the following penalties:

Table 3: Penalties for Exemption or Negative Results Based on Delay Duration

B. **Penalty for Exemption or Negative Results**	C. **Increased Tax Rights for Delays**	D. **Delay Duration**
E. DZD 2,500	F. 10%	G. Delay does not exceed 1 month
H. DZD 5,000	I. 20%	J. Delay between 1 and 2 months
K. DZD 10,000	L. 25%	M. Delay exceeds 2 months

Source: Prepared by the authors

N. **Penalties for Non-Submission**: If the annual tax return is not filed within 30 days from the reminder, the tax administration may automatically determine the taxable profit and apply a 25% penalty on the due tax.

O. **Penalties for Under-Reporting**: If the annual tax return reports incorrect or understated profits, the tax administration will demand the unpaid taxes with the following penalties:
   a. 10% for amounts under DZD 50,000
   b. 15% for amounts between DZD 50,000 and DZD 200,000
   c. 25% for amounts exceeding DZD 200,000 In cases of fraudulent activities, the penalty increases proportionally to the amount concealed, with a minimum of 50%, and up to 100% for unpaid amounts.

3.3.2 Penalties for Non-Payment of Provisional Tax

If the provisional tax is not paid or partially paid, the taxpayer will be subject to a penalty of 10% of the unpaid amount.

3.3.3 Penalties for Delayed Payment of Taxes Due

Tax penalties for delayed payments are applied based on the following table:

Table 4: Penalties for Delayed Payment of Taxes Based on Payment Timing

Total	**Threatening Penalty**	**Late Payment Penalty**	**Payment Date (After Due Date)**
10%	-	10%	Payment within 30 days of the due date
13%	3%	10%	Payment within the second month or part of it
16%	6%	10%	Payment within the third month or part of it
19%	9%	10%	Payment within the fourth month or part of it
22%	12%	10%	Payment within the fifth month or part of it
25%	15%	10%	Payment within the sixth month or later

Source: Prepared by the authors based on Article 402, Paragraph 1, of the Direct Taxes and Similar Levies Law.

IV. Conclusion:

In conclusion, the Algerian tax system, while essential for financing public services and supporting economic development, faces significant challenges due to frequent legislative amendments and the complexity of its structure. These issues, particularly the frequent changes in tax laws, have created an environment of uncertainty that hampers compliance, especially among small and medium enterprises (SMEs). SMEs, which form the backbone of the Algerian economy, struggle with understanding and implementing the changing tax regulations, leading to administrative inefficiencies and potential tax evasion. This study has highlighted the need for a more stable and simplified tax system that ensures fairness, transparency, and efficiency in tax collection.

❖ **Findings:**

1. The continuous modifications to the tax laws have resulted in confusion and difficulty for taxpayers, particularly SMEs, in understanding their obligations. This instability undermines the effectiveness of the tax system.
2. The intricate and multi-layered tax procedures make it difficult for taxpayers to navigate the system, resulting in errors in tax declarations and delays in payments.
3. Small and medium-sized enterprises face the most significant difficulties due to the unpredictability of the tax environment. These businesses often lack the resources and expertise to keep up with the evolving tax landscape, which places them at risk of non-compliance and penalties.

4. The instability and complexity of the tax system have led to inefficiencies in tax collection, with numerous instances of tax evasion or underreporting by businesses unable to keep up with the changing regulations.

❖ **Recommendations:**

1. It is crucial for the Algerian government to adopt a more stable approach to tax legislation, with fewer frequent changes. This would create a more predictable environment for businesses and taxpayers, improving compliance and reducing administrative confusion.
2. The tax system should be simplified by streamlining the tax procedures and reducing the complexity of tax forms and requirements. Implementing a clearer, more accessible tax code would enable taxpayers, particularly SMEs, to more easily comply with their obligations.
3. Special attention should be given to supporting SMEs in navigating the tax system. This could include providing tax education, advisory services, and simplified tax regimes tailored to the specific needs of smaller businesses.
4. The government should continue to enhance the digitalisation of the tax system to make it easier for businesses to file taxes, make payments, and track their obligations. A more user-friendly, digital tax platform would improve transparency and reduce the administrative burden on businesses.
5. To avoid confusion, the government should ensure that any amendments to tax laws are communicated clearly and in a timely manner to all stakeholders, particularly businesses. This would help in reducing misunderstandings and ensuring more accurate compliance with tax regulations.

By addressing these issues, Algeria could create a more effective and equitable tax system that promotes greater compliance and supports economic growth.

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