



PROPOSED REFORMS TO THE 2011 INCOME TAX LAW

TAX

INCOME
TAX

AND ITS AMENDMENTS

Evidence-Based Research

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**Proposed Reforms to the 2011 Income Tax Law and its Amendments
“Finance for Development” Project**

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Foreword

The production of this specialized study, entitled “Proposed Reforms to the Income Tax Law 2011 and its Amendments” comes in line with MIFTAH’s strategy to “contribute to the influence of policy and legislation with the view of protecting civil and social rights of all sectors and their adherence to principles of good governance.” The production of the study is part of the wider framework of the “Finance for Development” project, implemented by MIFTAH in partnership with Coalition for Accountability and Integrity “AMAN” and Applied Research Institute- Jerusalem “ARIJ” with support from OXFAM-Novib.

Income tax is considered one of the most important direct taxes. However, its application system has been continuously reviewed and modified. As such, this effort primarily seeks to propose amendments on the tax brackets, as well as encourage the proper implementation of the principle of differentiation in tax rates for both individuals and companies. This comes within the context of advancing achievement of tax justice towards the realization of socioeconomic justice.

In order to put evidence-based recommendations that reflect the overall context, MIFTAH’s team have offered a comprehensive overview of income tax in Palestine, focusing on vision, policy, legal texts and practical measures. This study also highlights contentious issues regarding the law and its application, as well as means to address and overcome them.

Hence, the results, conclusions and recommendations of the study provide a comprehensive overview of income tax in Palestine and means to affect tax policy. As such, this study should serve as a solid informative base to all stakeholders, including official institutions, civil society organizations, influencers in the economy and economic development sector in Palestine. The study should inform the approaches of these actors in building a tax system that is in harmony with the circumstances of the Palestinian economy, its features and requirements of revitalization, as well as the crucial considerations towards the effectuation of socioeconomic justice.

We would like to thank everyone who contributed to the completion of this work, as well as project partners and OXFAM-Novib.

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1. Introduction

Taxation is one of the key financial policies adopted and implemented by all countries, including Palestine. In enacting and amending tax laws, the Palestinian lawmakers seek to achieve a number of financial, economic and social objectives. Perhaps the most important of these objectives is increasing tax revenues, encouraging investments and redistributing income across different groups. The tax legal framework in Palestine has undergone major developments that have shaped its system over the past few years. Since the creation of the Palestinian Authority (PA) and up until 2004, the tax systems in force originated from the states that ruled or administered the Palestinian territories. In 2004, the Palestinian Legislative Council enacted the first Palestinian income tax law which was later amended via a presidential decree in 2008. In 2011 a new income tax law was enacted in lieu of all laws before. The 2011 law was amended three times, and the amendments are relevant to major issues in the law:

- **The 2012 amendments** increased the number of tax brackets from three to five (thus adding two new brackets, namely 22.5 percent and 30 percent on high-income earners).
- **The 2014 amendments** re-granted the 100 percent exemption for capital gains arising from assets and securities (which were reduced to 25 percent in the previous amendment); imposing a tax of 10 percent on the profits of microfinance and a similar rate on dividends in the forms of cash payments or stock shares.
- **The 2015 amendment:** raising income tax exemption from ILS 30,000 to ILS 36,000; lowering the tax rate for individuals and companies from 20 percent to 15 percent. Thus, only monopolies and franchises were left with an income tax rate of 20 percent.

As part of the efforts exerted by the Palestinian civil society organizations to monitor and evaluate the PA tax policy— with the income tax law being a key method, the Palestinian Initiative for the Promotion of Global Dialogue and Democracy- MIFTAH, in collaboration with other partners, prepared in late 2015 a study that aimed to evaluate and analyze the Palestinian 2011 income tax system and its amendments from a socioeconomic justice perspective and within the framework of international standards of transparency and best practices in the management of the tax system. The study reached a number of key conclusions:

- The tax law could not equally realize the three envisioned fiscal, economic and social goals, such that its focus on increasing revenue (the first goal) came at the expense of the other two goals (the economic and the social). Ironically, the amendments to the Income Tax Law have done little to increase the contribution of income tax to the total and domestic revenues as the income tax revenue has remained relatively low, reaching only eight percent at best. This may be attributed to the focus on a limited proportion of traditional taxpayers (major taxpayers) and fixed-term employees, rather than expanding the tax base through better inclusion of freelancers.
- Increasing the number of brackets would improve economic and social equity and redistribution of income. Yet, increasing the number of tax would incur higher costs and require additional human resources for collection. The current number of brackets in the Palestinian tax system (five percent, 10 percent, 15 percent and 20 percent) is unlikely to achieve social justice.
- The Articles of law pertaining to deductions reveal a partiality towards the wealthiest societal segments (companies and major taxpayers). This bias can be observed in the lavish deductions and exemptions given to companies, reaching 11 percent of the profits of companies. At the same time, income tax exemptions for natural persons were for those whose income did not exceed ILS 36,000, irrespective of socioeconomic discrepancies and conditions.
- The Law subjected income generated from agriculture and pension salaries to taxation, which would encroach on the earnings of these low-income earners and create collection/application problems. However, the recent amendments exempted the income of natural persons arising from agricultural activities from the tax.
- The Law did not take into account the economic and social conditions of taxpayers when it set the annual exemption and lowered the university education exemption and ignored medication and dependency expenses. As such, it seems that the previous laws were closer to the realization of social justice.
- The tax burden in Palestine, standing at 21 percent is high compared with neighboring countries, which stands at 16 percent in Jordan and 19 percent in both Egypt and Syria. The distribution of this burden and sources of funding do not contribute to the achievement of social justice across different societal segments. The findings suggested that large segments of the high-income earners do not pay their fair share. The Law does not take into consideration the size of profits in different economic sectors, nor does it establish a clear tax structure based on geographical

locations. Many questions about the mechanism of dealing with taxpayers in the Gaza Strip have been raised in light of the presidential exemption decree that still applies to all residents of the Strip.

The study recommended amending the articles that determine the taxable incomes (tax base), tax exemptions, deductions from income and tax brackets, with the view of increasing social equitability and justice. **As part of the research efforts made by MIFTAH and its partners to suggest reforms on the PA tax policy from a socioeconomic justice perspective, this paper proposes specific amendments to some articles of the Law. The proposed amendments are expected to improve prospects of realization of the envisioned socioeconomic justice.** The paper mainly draws on the findings and recommendations of a previous study entitled “Income Tax Law of 2011 and its Amendments: An Evaluation Study from a Socioeconomic Justice Perspective.”

1.1 Objectives

The main goal of this paper is to inform and influence the taxation policy of the Palestinian government, through the provision of data and facts about the tax system in Palestine, identifying gaps in the system and proposing specific amendments to the Law. With the view of achieving overall goal, the paper seeks to realize the two following objectives:

- To present and discuss evidence-based objective justifications to amend Articles of the Income Tax Law, guided towards the realization of socioeconomic justice, while ensuring that the PA public finance system remains intact, as well as maintaining the interests of the private sector; and
- To propose amendments to the Articles defining the mechanisms for calculating the taxable income in order to advance towards socioeconomic justice with regards to distributing the tax burden.

1.2 Rationale

The findings and recommendations of this paper are expected to support the government and other stakeholders (the private sector and civil society organizations) in introducing appropriate amendments to the 2011 Income Tax Law and its amendments in such a way that fulfills socioeconomic justice in the distribution of the tax burden. The paper will establish a new approach in the formulation of the PA tax policy— an approach that is based on participation and justice, thus lending this policy legitimacy and credibility

among taxpayers and the general public. The commencement point for the development of a fair and effective tax policy is building an income tax law that is fair, balanced and responsive to the rights and interests of all segments of the society. Nonetheless it is imperative to ensure that the law does not compromise the financial sustainability of the PA or and the ability of the local economy to encourage private investment. Other necessary executive measures including building the administrative and technical capacity of the taxation staff; improving tax inspection; expediting tax dispute resolutions; and improving their efficiency to ensure safe, just and effective enforcement of the law. **The importance of this study stems from the fact that its implications and recommendations are consistent with the goals and priorities outlined in the National Agenda of Public Policies within the framework of the Strategic Development Plan of 2017-2022, which, unprecedentedly prioritized citizens and social justice.**

1.3 Methodology

With the view of realizing the overall goal and specific objectives, the following research methods and tools were utilized:

- A review of the income tax legislation, particularly the 2011 Income Tax Law and its amendments.
- A literature review (studies and reports), especially the study entitled “Income Tax Law of 2011 and its Amendments: An Evaluation Study, from a Socioeconomic Justice Perspective.”
- These reviews will facilitate the drafting of the second part of this paper, which focuses on the justifications and the propositions for the proposed amendments in pursuance of social justice.
- Using financial reports, particularly figures of tax revenues in 2014, 2015 and 2016.
- Conducting focused face-to-face interviews with concerned parties, such as activists in social and economic rights; decision-makers in the Ministry of Finance, the Ministry of National Economy and the Investment Promotion Agency; Legislative Council members; and a representative sample of the private sector, workers, farmers and trade unions.
- Organizing a workshop with relevant stakeholders to present the conclusions and recommendations of the study, receive feedback and accordingly modify the paper.

1.4 Terminology

Taxpayer: Under the law, the taxpayer is any natural or legal person that pays taxes, deducts taxes for the benefit of the Tax Department or transfers taxes to the Tax Department.

Natural Person is any individual or partner in solidarity or simple limited partnerships or any companies or persons specified by the law.

Legal Person is a non-human entity (organization or corporation) that is treated as a person, such as associations, public shareholding companies, limited liability companies, partnerships limited by shares and resident and non-resident foreign companies.

Taxable Income is the gross income minus respectively retained losses, exceptions and donations as set forth by the law.

Tax Base is the taxable asset, money or person.

Tax Deductions: to calculate the taxable income for a person, costs and expenses spent or due entirely and exclusively for generating the gross income during the tax period are deducted.

Settlement of Tax Disputes: the procedures whereby the tax committees consider the disputes arising from the enforcement of the tax law between the taxpayer and the tax department, towards reaching a compromise to the appeasement of both parties to the dispute. Usually, this stage precedes the litigation stage before the judicial authority.

Direct Tax is paid directly by a taxpayer. It is levied on wealth, such as taxes levied on income and capital.

Indirect Taxes are deducted indirectly from the income or the capital of the taxpayer. An indirect tax is levied on the use of the wealth, not on the wealth per se. Indirect taxes are levied across the money supply chain. Examples include sales tax, VAT, purchase tax and customs.

Tax Assessment Officer: any employee or a committee of employees delegated in writing by the Director General to assess or scrutinize the tax under the provisions of this decree.

Annual Exemption is an exemption from all or some of the taxes imposed by the state. Usually, it is granted to individuals or organizations within a specific category towards their economic support and encouragement, as well as facilitate realization of justice or to promote economic activity by lowering taxes imposed on organizations or individuals engaged in that activity.

Government-Granted Monopoly is the exclusive privilege or license granted by the government to an organization or a company to sell specific goods or services in a particular area for a specific period. Usually, the monopolist is the sole provider of these goods or services.

2. Propositions and Justifications for the Proposed Amendments

As a rule of thumb, the tax system approaches the realization of justice if the contribution of income tax and other direct taxes to total tax revenues is higher than the contribution of indirect taxes. The higher the revenues from the first category compared to the second category, the more socially equitable the tax system, provided that other factors remain constant. The redistribution of tax revenues is another important factor affecting economic and social justice in countries worldwide. In general, states use tax revenues to cover salaries and wages, expenditure on goods and services and provision of the basic social services, including education, health and social security, as well as the general welfare services, such as building public parks, theaters, museums, stadiums, clubs and recreational areas and forests to preserve the environment and reforest streets.

Wise spending of tax revenues should contribute to achieving a nation's social welfare and happiness in the society, promoting creativity and innovation and supporting the legislature in fostering the principles of transparency and accountability at all levels.

In developing and poor countries, the shares of indirect taxes are high, sometimes exceeding 70 -75 percent of the total tax revenue.¹ In some of these countries, including Palestine, the figure is even higher, exceeding 85 percent, with the most disadvantaged being the poorest segments, as indirect taxes are levied on goods and services, which disproportionately affects low-income households and marginalized groups, especially during times of inflation. The wealthy classes, with high income, are not generally affected by indirect taxes. Circumstances in developing countries leading to such discrepancies include:

1. Incomes in developing countries are generally low, resulting in little and limited revenues from the direct income tax, in comparison to indirect taxes. There is a relatively large portion of the society working in the public and private sectors whose incomes, minus deductions and exemptions set forth the law are close to the minimum wage subject to taxation. Some of these workers even receive state subsidies (partial low-income subsidies), which results in low and even negligible revenues from direct taxes compared to revenues from indirect taxes.

¹ Souraya, Bin Ayad (2005). Collection and economic development. The Institute for economic sciences, trade and management. Algeria

2. The number of large and medium-sized industrial and commercial enterprises is very small in developing countries, which results in low revenues from direct taxes imposed on corporate profits taxes— an essential component of direct tax. This is quite common in developing countries as more than 90 percent of businesses are small-sized or family-owned.
3. The tax system suffers numerous loopholes and favors the rich, who usually have influence over policy and decision-makers on both the legislative and executive levels. This class often enjoys close connections to the decision-makers— an advantage that is beyond the reach of the poor and low-wage earners.
4. There are also indications of poor tax collection due to tax evasion at all levels, especially among freelance professions, such as accountants, doctors, consultation offices, lawyers, other support service providers and the like.
5. Third world countries are plagued with corruption and lack of confidence in governments and official institutions due to poor supervision and accountability, prompting citizens to evade payment of taxes. This is also a direct result of that taxpayers rarely see the money taken from them spent on public services, such as to improve infrastructure facilities and basic social services. Even worse, people in developing countries have always reported lack of equal opportunities in recruitment and employment.
6. Indirect taxes are easy to levy, as customs duties, VAT, purchase tax, are all collected at ports before the goods/services reach the consumer, irrespective of whether the importers managed to sell the goods/services or not or whether they garnered profits or sustained losses.

Those are the main reasons that explain the relatively low and negligible contribution of direct tax (particularly income tax) to the total tax revenue in the developing countries, including Palestine. Obviously, the higher the share of the indirect tax revenues, the more socially and economically inequitable the tax system is, and thus the more biased it is towards the rich at the expense of vulnerable and marginalized individuals and groups.

2.1 Reasons and Justifications for the High Share of Indirect Taxes

Capitalist economists attempted to rationalize increasing the contribution of indirect taxes to the total tax revenues. Some argue that any increase in the incomes of the rich will have a direct positive effect on savings and thus investment. This is because the wealthy classes have reached the saturation

stage, suggesting that the amounts added to their incomes will not be spent on consumer goods and services. This is not the case for the ever-growing poor and low-income classes that can hardly reach saturation as their incomes can barely meet their basic needs. The increases in their incomes will therefore be spent on consumer goods/services, thereby reducing the chances of saving and investment, which lowers the likelihood of starting new businesses that can create job opportunities. Western economists, thus, always recommend increasing indirect taxes, as they are easily levied and are unlikely to stir protests, except in cases involving basic and essential goods, such as bread.

In light of direct capitalist domination over global economy and indirect control of the economic policies of the third world, including the Arab region, the developing countries have been influenced by capitalism; this comes against the backdrop of the Ottoman rule that levied fees, Kharaj and indirect taxes on all goods, including agricultural products. This has continued until the present day. A radical change in the tax structure in the Arab countries is unlikely in the foreseeable future, as these countries still heavily depend on rich countries, their financial institutions or Western-funded organizations to get funds, expertise and assistance. However, it is still possible to reduce the tax burden on the people in Third World countries, particularly Arab states, including Palestine Through a a wise reallocation of revenues cover the costs of different social services. This should take place with the view of incrementally restructuring the tax system, such that, during the first phase, the contribution of indirect taxes to the total tax revenues does not exceed 60 percent, and later to 50 percent or even lower. The tax brackets should also be reconsidered, such that low income earners are subjected to a smaller percentage, with income tax rates steadily progressing and increasing to high-income earners. This would ensure the realization of justice in through equitable distribution of the tax burden in accordance with their capabilities and incomes.

2.2 Background: Amendments to the Income Tax Law in Palestine

The Palestinian tax system has undergone several amendments since the unified Income Tax Law No. 17 was enacted back in 2004 in lieu of the laws that were in force in the West Bank and Gaza Strip at the time. Obviously, the different amendments were not thoroughly thought out to achieve relative social justice. The Law was amended 5 times (2008, 2011, 2012, 2014 and 2015) via presidential decrees in accordance with Article 43 of the Palestinian Basic Law. The amendments mainly made frequent changes to

tax brackets, rates and exemptions— a symptom of hesitation and confusion by policy-makers, be it the government or the tax department. Naturally, laws are enacted exclusively by the Parliament. However, the peculiar context that resulted from Palestinian internal division in the Palestinian Territory since 2007 allowed the government upon the recommendation of the Minister of Finance to introduce amendments to the Law; hence the numerous presidential decrees.²

The frequent amendments made to the Palestinian tax law did not come with the intention of achieving social or tax justice; rather they aimed to improve collection. The main culprit could be the Israeli occupation authorities; from 1967 through 1994, the military authorities did not attempt to achieve justice and were only concerned with increasing funds flowing into the Israeli treasury. This policy mainstreamed an attitude and approach of tax evasion and deliberate misrepresentation of the true state of affairs by taxpayers, be it individuals or organizations representing the tax base. In practice, this has led to poor awareness of the importance of paying taxes among a significant portion of taxpayers. Another culprit is the 2004 Income Tax Law, with provisions identically taken from previously enforced laws that are either outdated or failed to account for the Palestinian peculiar economic and social conditions produced by nearly 50 years of occupation.³

Remarks by observers and experts suggest that the amendments to the law were made under pressures from high-income earners and owners of large businesses. Being subject to lobbying forces, the de facto lawmakers failed to give due attention to a number of issues, including social justice— which is relative anyway, encouragement of investment, linking the income tax system to Gross Domestic Product, the tax burden, inflation, the large gap between the income levels and the small number of brackets, which naturally are biased to the rich societal segments. It is important to flag that in Palestine, income levels vary considerably— a fact that cannot be properly explained, justified or defended, not when the Palestinians are still under occupation. There is a class whose individuals earn more than USD 25,000 a month, and enjoy additional privileges, such as allowances and extra payments for the 13th, 14th, 15th and 16th months. This is the case in most banks and insurance, financial and holding companies. In contrast, there is a relatively big segment whose members earn a scant USD 600 a month.

² See MAS, Background Paper 4: “Amendments to the Income Tax Law: Goals and Outcomes”; and “Income Tax Law of 2011 and its Amendments: An Evaluation Study from a Socioeconomic Justice Perspective,” Naser Abdel Karim et al.

³ From 1967 to 2004.

Perhaps the biggest obstacle to developing a relatively equitable law in Palestine is failing to take into account the large gap between income levels in Palestine. Such a law will have to specify tax brackets that take into account the peculiarity of that income structure. The first stumbling block to building a tax system that can achieve justice— with fair distribution of tax burden being the most important consideration— is the unjustified insistence by the private sector to maintain only three tax layers. If the current Palestinian situation does not change, it will be very difficult or even impossible to achieve or come close to achieving social justice, not when the tax system is running only three brackets (five percent, 10 percent and 15 percent), a system that favors wealthy taxpayers, monopolist and banks, through disproportionate taxation relative to their large profits.

From a social justice perspective, it is by no means acceptable that a taxpayer (individual or company) whose monthly income exceeds USD 25,000 (USD 300,000 a year) pays only 15 percent as income tax and another person whose monthly income is USD 4,000 (USD 48,000 a year) pays the same percentage (of course after exemptions and deductions). As a matter of fact, Palestinian high-income earners, for economic considerations and high political risks, may not reinvest or pump these amounts into the local economic cycle and would prefer to invest abroad.

In addition, any tax system that is not linked to the cost of living rate and price index can never achieve social justice. In fact, the annual rise in prices reduces the monthly and annual incomes. If the annual inflation rate is five percent, for example, the purchasing power of taxpayers will decline by the same percentage by the end of the year. Still, these taxpayers will have to pay the same tax rate they used to pay before the rise in prices. This should be taken into consideration if the tax system is meant to achieve social justice.

Countries worldwide run progressive taxation systems which proved to produce high tax revenues and achieve (or come close to achieving) social justice. These countries usually encourage investment through investment promotion laws, with tax exemptions for several renewable years. Of course, some people will disapprove of progressive taxation, but the state should not succumb to objections by high-income earners. In the United States, for example, a person who earns USD 70,000 is taxed higher than a person whose income is only USD 50,000 because they are subject to different tax rates and brackets. The progressive taxation redistributes income gradually. For example, the wealthiest one percent

of the Americans contribute about 25 percent of the total taxes collected by the government, while the contribution of the poorest 20 percent of the population stands only at two percent.⁴ We are still very far away from this idealism. By taking a larger percentage from high-income earners, in comparison to low-income individuals, progressive taxation always plays a significant role in the redistribution of income across individuals.

Many countries apply differential taxation, another important taxation principle which can also contribute to the achievement of justice. This principle classifies taxpayers according to their sources of income and their socioeconomic conditions. For example, the income generated from agricultural products with high value for the economy of developing countries and households is taxed lower than incomes generated from low value-added economic activities, such as land transactions, trade and speculation in capital markets. Also, the tax system should consider the differences between taxpayers' conditions, such as their needs for education and healthcare.

Therefore, flat and limited tax rates applied in Palestine should be avoided, as they are biased towards the rich at the expense of low and middle-income earners. In the Palestinian income tax system, the rate for those who earn ILS 181,000 a year is the same for individuals and companies that earn millions of shekels. This system weakens the middle and low classes and impairs fair distribution of the tax burden.

⁴ The Congress Library, <http://www.alhayat.com/Articles/5826229>

3. General Principles and Proposals

3.1 General Principles Underpinning Proposed Amendments

For the sake of social justice and better distribution of the tax burden, it is necessary, prior to the presentation of the proposed amendments, to introduce the set of principles underpinning the proposed amendments to the Income Tax Law:

- A. **Repeal the powers granted to the Cabinet upon recommendation by the Minister of Finance to totally or partially amend the tax rates and brackets.** Such powers were overused, as the Cabinet made several amendments— the majority of which came as a result of pressures and some conflicted with prior amendments. The de facto lawmakers failed to take into account the welfare of the national economy, social justice or protection of low-income individuals. The impaired Palestinian Legislative Council since 2007, in light of the political division, and poor public participation in drawing economic policies and relevant legislation should be taken as caveats by the executive branch rather than an opportunity to change or add legislations.
- B. **Lawmakers should eliminate the use of the flat rate,** specifically within the third bracket which favors high-income earners as well as large, monopolistic and holding companies. The flat rate should be exchanged with **progressive taxation** found in many countries. A progressive tax is much fairer as it redistributes income, thus allowing the government to provide social and economic services to all segments and reduce the tax burden on low-income earners and vulnerable groups through subsidies. Differential taxation would also be quite viable and an equitable option.
- C. **Increasing the number of tax brackets in harmony with the prevailing income levels.** Tax justice is accomplished when rates are commensurate with actual incomes. This will be the most important recommendation in this paper.
- D. **The allegations by the private sector, that changing the rates and brackets for individuals and companies reduces investment and fails to encourage new investments, should be ignored.** The current income tax law has not attracted effective investment, while a significant portion of high-income earners transfer their savings abroad, as most of them are internationals. Meanwhile, income tax law has granted the large, monopolistic and holding companies tax exemptions that are the most business-friendly in the comparable economies in the Middle East.

Therefore, the private sector's claim that changing the rates and brackets would result in capital flight is misleading. Capital flight is linked to the political and security uncertainties as well as the Israeli occupation, and is not directly linked to the tax system. The 2012 bill that proposed two additional brackets (22.5 percent and 30 percent) to the already existing three brackets (five percent, 10 percent and 15 percent) was faced with protests by the private sector and high-income earners, claiming that the new law adds to the financial burdens taxpayers should cover at a time when business performance and economic activities are declining drastically. In reality, however, this proved to be untrue.

E. **In order to develop a tax law that is flexible, contributes to the achievement of social justice, increases revenue and encourages investment**, several guidelines should be taken into consideration:

1. Linking tax rates to the price index (the standard of living).
2. Defining the poverty line and setting the minimum wage in accordance with the price index.
3. Setting a wage ceiling, a limit on how much income an individual can earn— an attempt to bridge the ever-growing gap between the highest and lowest incomes.
4. An income tax law should set forth a system of brackets which seeks to strengthen and protect the middle class, which is constantly losing ground. This is very critical and requires regular and annual inspection. The middle class is the bedrock of the national economy and the driver of political, cultural and social conditions. Therefore, any law that does not protect the middle class, or does not prevent its shrinking, would be a significant threat to the overall economic development.
5. A new taxation system should encourage and attract new investments— granting generous tax breaks to investors and achieving tax justice through progressive taxation. The most important determinants, however, are the political and security instability and the Israeli occupation, a source of many economic problems in Palestine.

3.2 An Urgent Need to Modify Tax Brackets

So far, we have observed that the three- bracket system does not bring about social justice as it is completely biased towards the rich and monopolistic and holding companies. It is difficult to fulfill justice while maintaining only three brackets, which necessitates an increase in the number of brackets in

harmony with the existing income levels. It is unfair to tax an individual whose annual income is just over ILS 150,000 the same rate (15 percent) imposed on individuals/companies with annual incomes reaching millions of shekels. This system will eventually shake off the middle class (the economy's bedrock). It will also bring further distress to low-income earners, reduces the opportunities available to them, prevents their progress and even increases their poverty. Under the current tax system, the poor cannot save money for the unforeseen expenses with life conditions increasing in demand.

The foregoing discussion suggests that achieving social and tax justice as well as maintaining the strength and capacity of the middle class and averting the impoverishment of the low-income class require increasing the number of tax brackets, such that different income levels are taxed different rates. The gains from such increases are undeniable. In addition to the above remarks, there are large gaps between taxpayers. The current law has specified three tax brackets: five percent, 10 percent and 15 percent. The five percent rate applies to income ranging from ILS 36,000 to ILS 75,000; the 10 percent rate applies to income ranging from ILS 75,001 to ILS 150,000; and the 15 percent rate applies to all incomes above ILS 150,000. This is unfair even after deductions and exemptions. The middle class -so to speak- is affected dramatically. After deductions, the low-income class (with an income below ILS 75,000) will most likely pay a very small part of their total income to the tax department, and the low-income earners will remain below or close to the poverty line. However, the segment taxed in accordance with the second bracket would have to pay what they would, otherwise, keep as savings, thus compromising their resilience and disrupting their progress. This is definitely unfair. For the rich class, however, the current tax rates will never be a burden because their net income will incur increased accumulation of savings. Even among the people in this class, there are some gaps: rich, wealthy and super-rich. Therefore, the endeavor to achieve social justice requires brackets that are commensurate with the levels of income and the size of profits. The existing tax system is shrouded in bias, explicitly favoring the wealthy; it is unlikely to achieve social justice or redistribute tax burden according to the financial capacity.

4. Specific Proposed Amendments to the Law

4.1 The Cabinet's Amending Powers and the Assessing Officers' Judicial Powers

The continued powers given to the Cabinet that enables it to modify tax brackets and rates is a clear violation of the 2003 Amended Palestinian Basic Law, and specifically to Article 88, as well as Article 7 of the 1998 Budget Law. Granting such powers is an encroachment on the inherent role of the Legislative Council, and it creates a state of financial and economic instability. It is thus important to revoke the powers which allow the Cabinet upon the recommendation of the Minister of Finance to completely or partially amend the tax rates and brackets.

Needless to say, the body with legitimate powers to levy taxes (the Legislative Council under the Basic Law) must also have exclusive powers to give or modify tax exemptions inspired in line with the rule that 'whoever has the right to levy tax should have the right to grant exemptions'. Besides, levying taxes and granting exemptions have financial implications on the PA treasury, and it is only the Legislative Council that can be entrusted with safeguarding the public funds.

On the other hand, the existing law has lavishly granted powers to the tax officers or any tax employee commissioned in writing to inspect any facility and keep any documents related to taxpayers. This may compromise the principle of confidentiality presumably ensured by the law. The existing tax law allows the tax staff members to use the data they obtained from the tax court when necessary. In practice, they might abuse the powers granted to them to construe the doctrine of necessity as they deem appropriate, to the detriment of the confidentiality of information.

Based on the above observations, we suggest making the following amendments to the 2011 law:

First: Repeal Paragraph (2) of Article (12), which gives the Cabinet the powers to modify tax exemptions.

Second: Repeal Paragraph (5) of Article (16), which gives the Cabinet the powers to modify tax brackets.

Third: Amend Paragraph (2) of Article (23), which allows the tax officer or a commissioned employee to enter any facility and keep taxpayers'

documents. Such powers should be restricted by specific conditions, so as to maintain the principle of confidentiality and the privacy of facilities and taxpayers.

4.2 Tax Base and Tax-Exempt Sectors

The 2011 Law devoted an entire chapter to tax exemptions granted to natural persons and another chapter for deductions given to legal persons. The Law was partial to the wealthiest segments (companies and major taxpayers), in giving lavish expense deductions reaching 11 percent of the profits of companies. When it set the annual exemption, the Law did not take into account the economic and social conditions of the taxpayers, as it lowered the university education exemption and ignored medication and dependency expenses. The previous laws, seemingly, were more socially equitable. The Law, **prior to the last amendment**, subjected income generated from agriculture and pension salaries to taxation, which would create collection problems in terms of calculating agricultural revenues and expenses. The agricultural sector is closely linked to the land, which is subject to confiscation and annexation by colonial settlements. Thus, taxing farming activities is contradictory to the government's stated policy and the public bearings of supporting resilience of the agricultural sector. On the other hand, the Law has made pension incomes subject to taxation, an explicit breach of the Palestinian labor law and the workers' right to receiving their full savings and the end of service benefits.

Because of such discrepancies in the existing law, the following amendments are proposed with the view of creating a fair tax system:

First: amend Article (7) relevant to tax-exempt incomes, specifically, paragraph (4) that subjects end of service benefits to taxes with a maximum of one month for each year. The underlined part (with a maximum of one month for each year) should be repealed, such that end of service benefits are completely exempted. There are two justifications for the proposed amendment. First, the amendment is expected to make the income tax law consistent with the labor laws. Second, according to accountants and certified auditors, Article (7) is difficult to apply in its current form.⁵

Second: paragraph (16) of Article (7) on capital gains should be amended. A tax exemption can be granted to the first annual USD 1,000 (or the equivalent

⁵ An interview with Shafeeq Awashreh, a certified auditor, December 12, 2016.

in local currency) of the profits generated by trading stocks and securities. This also applies to profits from cash dividends provided by shareholding companies to shareholders, such that the first annual USD 1,000 (or equivalent in the local currency) is tax exempt, coupled with granting dividends between companies in order to avoid double taxation. The purpose of this amendment is multifold: encouraging small investors in the stock and financial markets to continue investing, injecting funds necessary to expanding investment and developing companies and economic facilities and encouraging the culture of savings and investment among the middle class. This comes within the context that the Palestinian financial market is small and lacks depth and liquidity, as the average daily trading position size is less than USD 400,000, and as such the expected treasury revenues are extremely modest.⁶

Third: it is important to repeal income tax on trust depositories in lieu of paragraph (8) of Article (31). According to the Palestine Monetary Authority, the annual interest paid by banks to depositors is barely USD 30,000,000, including those paid to official agencies and local government councils. Since the 2011 amendment levied a tax of five percent of the interest earned on deposits, the government's share will be only USD 1,500,000 before deducting the share of official agencies and local government units. In practice, the amendment will create large administrative burdens and additional costs that can equal or even outbalance the expected returns.

Fourth: Amend Article (12) relevant to exemptions, as follows:

- Amend paragraph (A) by increasing the income tax threshold from ILS 36,000 to ILS 42,000.
- Repeal paragraph (D) which subjects pensions and employees contributions to provident funds to taxation.
- Amend paragraph (F) which limits the number of tax-exempt university students to only two. We suggest removing limitations on this item in light of the perceived importance of university education among Palestinian families. It would also be important to grant an additional ILS 4,000 tax exemption per year for natural taxpayers with three dependencies or more and ILS 2,000 for households raising a member with disability.

Fifth: Add a new Article that levies 10 percent on profits arising from real estate transactions by individuals (sale and purchase of land and apartments) or three percent on the net value of the transactions.

⁶ An interview with Imad Abu Sabha, Acting Director General, Tax Department, December 10, 2016.

4.3 Tax Rates and Brackets

In light of the explanation of the propositions and justifications underpinning the proposed amendments, following is the proposed new system of income tax brackets. The first bracket in the current system (ranging from ILS 1 to ILS 75,000) should be maintained in its current form; however, it is important to lower the rate from five percent to three percent. This recommendation is contingent on raising the annual exemption of the income tax threshold for natural persons from ILS 36,000 to ILS 42,000 set forth in the existing law. The incomes of a relatively large segment of self-employed natural persons and individuals working in the public, civil society and private sectors as well as individuals running small-scale enterprises are close to the minimum wage subject to taxation. The proposed system will run six brackets instead of three. The table below compares the proposed tax brackets with the current system.

	The Existing Law		The Proposed System	
	Tax bracket by annual income (in ILS)	Tax rate	Tax bracket by annual income (in ILS)	Tax rate
Bracket 1	From 1-75,000	5%	From 1 to 75,000	3%
Bracket 2	From 75,001 to 150,000	10%	From 75,001 to 150,000	5%
Bracket 3	More than 150,000 and companies	15%	From 150,001 to 240,000	7%
Bracket 4	Telecom operators and monopolies	20%	From 240,001 to 360,000	15%
Bracket 5	-----	-----	From 360,001 to 480,000	20%
Bracket 6	-----	-----	More than 480,000	30%

Obviously, the low incomes, around the subsistence level, are exempted from income tax, while the lower middle class and the upper middle class are taxed three to seven percent rates. In Jordan, the progressive tax reaches up to 30 percent, and people there, specifically those who run businesses, are accustomed to that and do not protest. Why do we expect protests by taxpayers in Palestine against the 30 percent bracket? Furthermore, the new rates and brackets will increase tax revenues.

To test the efficiency of the proposed system, a recollection of the model presented in the study entitled “Income Tax Law of 2011 and its Amendments: An Evaluation Study from a Socioeconomic Justice Perspective” is imperative. Increasing the number of tax brackets to include the three proposed ones in the model (table 6 therein), alongside modifying the tax rates for some brackets will strengthen the principle of socioeconomic

justice in the tax system. This analysis is based on the implementation of a progressive taxation model and an increase in the contribution of high-income segments to the state treasury. Unlike the current system, where the higher the income the lower the tax burden, the proposed system levies higher rates on high-income earners.

The table below provides a summary and a comparison for the tax burden figures across the proposed brackets. The figures are based on the proposed six-bracket system.

Income tax calculation mechanism under the 2011 amendments; and tax burden relative to income based on the proposed amendment in this paper (in ILS)

	1	2	3	4	5	6	7	8	9	10
Annual income (in ILS)	60,000	90,000	135,000	200,000	250,000	300,000	400,000	500,000	600,000	700,000
Exemptions	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000	40,000
Taxable income	20,000	50,000	95,000	160,000	210,000	260,000	360,000	460,000	560,000	660,000
3% bracket	600	1,500	2,250	2,250	2,250	2,250	2,250	2,250	2,250	2,250
Remaining income			20,000	85,000	135,000	185,000	285,000	385,000	485,000	585,000
5% bracket			1,000	3,750	3,750	3,750	3,750	3,750	3,750	3,750
Remaining income				10,000	60,000	110,000	210,000	310,000	410,000	510,000
7% bracket				700	4200	6,300	6,300	6,300	6,300	6,300
Remaining income						20,000	120,000	220,000	320,000	420,000
15% bracket						3,000	18,000	18,000	18,000	18,000
Remaining income								100,000	200,000	300,000
20% bracket								20,000	24,000	24,000
Remaining income									80,000	180,000
23% bracket									24,000	54,000
Total tax payable	600	1,500	3,250	6,700	10,200	15,300	30,300	50,300	78,300	108,300
Tax as % to annual income	1%	1.7%	2.4%	3.4%	4.1%	5.1%	7.6%	10.1%	13.1%	15.5%
% increase in income	-	50%	50%	48%	25%	20%	33%	25%	20%	17%
% increase in tax (as per proposed amendments)	-	67%	44%	39%	22%	25%	49%	33%	30%	19%
% increase in tax (under the existing law)	-	50%	52%	39%	12%	16%	21%	10%	6%	4%

4.4 Tax Brackets on Companies

The proposed systems implements the principle of differentiation among different types of companies and thus between brackets:

1. Monopolistic and holding companies.
2. Banking, financial and service companies (such as banks, insurance companies and cellular phones companies).
3. Shareholding, privately-held or individual real estate companies.
4. Industrial public shareholding companies.
5. Agricultural production shareholding companies, land reclamation companies and companies producing basic products such as grain, vegetables and fruit.
6. Hotels and tourism companies.
7. Family-owned and privately-held companies.

The following tax rates are proposed for companies:

Type of company	The proposed tax rate
1) Monopolistic and holding companies	30%
2) Banking, financial and service companies	25%
3) Real estate companies	25%
4) Industrial public shareholding companies	20%
5) Hotels and tourism companies	15%
6) Family-owned and privately-held companies	15%
7) Agricultural production shareholding companies	10%

The Palestinian legislature (the executive power in the Palestinian case) has made a positive step that can be a foundation for further improvements. The 2015 amendment excluded monopolistic and telecommunications companies from the 15 percent rate, and such companies continued to pay the 20 percent rate.

The 10 percent rate for agricultural companies would encourage the reclamation of land and the expansion in producing food security products. Farming the land would also protect it from annexation or confiscation by the Israeli occupation. For monopolistic companies, the 30 percent proposed

rate is consistent with international rates, as in most countries worldwide the rate on monopolistic companies reaches 35 percent in addition to franchise fees which are renewed every five or 10 years. Likewise, in many countries the tax rate on profits of banks and cellular companies can reach up to 35 percent. Regarding real estate companies (construction and marketing), the profit margins are high; therefore a tax rate of 25 percent is relatively reasonable.

5. Conclusion

If these amendments are hypothetically tested, they are likely to:

- A. Increase tax revenues;
- B. Prevent slippage of the middle class– the bedrock of the national economy– into the lower class, as such slippage would weaken the productivity and cohesion of this class and create unrest and disruption;
- C. Achieve fair distribution of tax burden and facilitate furtherance of social justice;
- D. Protect the poor and low-income classes and gradually raise their living standards, rather than making them a burden on the economy; and
- E. These amendments will not negatively affect investment, which is essentially linked to other determinants, basically the political and security uncertainties and the Israeli occupation.

PROPOSED REFORMS TO THE 2011 INCOMETAX LAW AND ITS AMENDMENTS

Position Paper

1. Justifications and Objectives

In enacting and amending tax laws, the Palestinian lawmakers seek to achieve a number of financial, economic and social objectives. Perhaps the most important of these objectives is increasing tax revenues, encouraging investments and redistributing income across different groups. The tax legal framework in Palestine has undergone major developments that have shaped its system over the past few years. Since the creation of the PA and up until 2004, the tax system in force originated from the states that ruled or administered the Palestinian territories. In 2004, the Palestinian Legislative Council enacted the first Palestinian income tax law which was later amended by a presidential decree in 2008. In 2011 a new income tax law was enacted in lieu of all laws before. The 2011 law was amended three times in 2012, 2014 and 2015. The amendments on the 2011 law are relevant to major issues in the law including tax base, tax brackets and rates, tax exemptions and deductions. Yet, observers have expressed concerns that these frequent amendments are a result of giving amendment powers to the government based on the recommendation of the Minister of Finance in clear violation of the Basic Law which exclusively assigns this power to the Legislative Council. Also, these amendments reflect the absence of vision regarding the economic policies on the part of the government, and were mainly motivated by the goal of improving tax collections at the expense of the other two goals of social justice and economic growth.

As part of the efforts exerted by the Palestinian civil society organizations to monitor and evaluate the Palestinian Authority tax policy– with the income tax law being a key component of this policy- the Palestinian Initiative for the Promotion of Global Dialogue and Democracy, in collaboration with other partners, prepared in late 2015 a study that aimed to evaluate and analyze the Palestinian 2011 income tax system and its amendments from a socioeconomic justice perspective, and within the framework of international standards of transparency and best practices in the management of the tax system. The study reached a number of key conclusions, one of which was that the law in concern did not succeed in balancing economic, fiscal and social goals, such that it focused on improving the financial goal of collection of taxes at the expense of the social and economic goal. Also, the study demonstrated that the tax brackets and rates remained narrow and insufficiently progressive. Furthermore and with regard to Articles relevant to deductions and exemptions, it suggested that the law was biased to the wealthiest societal segments (companies and wealthy taxpayers). This bias

can be observed in the lavish deductions and exemptions given to companies, reaching 11 percent of the profits of companies. At the same time, income tax exemptions for natural persons were for those whose income did not exceed ILS 36,000, irrespective of socioeconomic discrepancies and conditions.

The study recommends a reconsideration of the articles that determine the taxable incomes (tax base), tax exemptions and incentives, deductions from income and the tax brackets and rates, with the view of promoting social justice and equitability. **As part of the research efforts made by MIFTAH and its partners to suggest reforms to the PA tax policy from a socioeconomic justice perspective, the present paper proposes specific amendments to some articles of the Law. The proposed amendments are expected to improve the prospects for the realization of envisaged socioeconomic justice through tax reform.** The paper mainly draws on the findings and recommendations of a previous study entitled “Income Tax Law of 2011 and its Amendments: An Evaluation Study, from a Socioeconomic Justice Perspective.”

The importance of this study stems from the fact that its implications and recommendations are consistent with the goals and priorities outlined in the National Agenda of Public Policies within the framework of the Strategic Development Plan of 2017- 2022, which, unprecedentedly prioritized citizens and social justice.

2. Propositions and Foundations for the Proposed Amendments

Remarks by observers and experts suggest that the amendments to the Law that were made came under pressures from high-income earners and owners of large businesses. Being subject to lobbying forces, the de facto lawmakers failed to give due consideration to social justice, which is ultimately relative, and whether there is stimulation of investment, linking the income tax system to the Gross Domestic Product, the tax burden, inflation, the large gap between the income levels and the small number of brackets, which ultimately comes in favor of rich Palestinian societal segments. It is important to flag here that in Palestine income levels vary considerably –a fact that cannot be properly explained, justified or defended, not when the Palestinians are still under the occupation. There is a class of individuals who earn more than USD 25,000 a month, in addition to allowances and payments for additional months (13th,

14th, 15th and 16th months in most banks and insurance, financial and holding companies). By contrast, there is a significant society segment whose members earn less than USD 600 per month.

Perhaps the biggest obstacle to developing a relatively equitable law in Palestine is failing to acknowledge the large income gap between different societal segments in Palestine. Such a law will have to specify tax brackets that take into account the peculiarity of that income structure. The first obstacle to building a tax system that can achieve justice— with fair distribution of tax burden being the most important consideration— is the unjustified insistence of the private sector to maintain only three brackets. If the current Palestinian situation does not change, it will be very difficult, if not impossible to achieve or come close to achieving social justice. These chances are further reduced if the tax system maintains an identification of only three brackets (five percent, 10 percent and 15 percent), which favors the wealthy individuals, monopolists and banks through facilitating an avoidance of high tax rates that are proportionate to their large income and profits.

From a social justice perspective, it is by no means acceptable that a taxpayer (individual or company) whose monthly income exceeds USD 25,000 (USD 300,000 a year) pays only 15 percent as income tax and another person whose monthly income is USD 4,000 (USD 48,000 a year) pays the same percentage (after exemptions and deductions). Furthermore, there is a high chance that these incomes may not be reinvested or redistributed into the local economic cycle, but are reinvested abroad for economic considerations and increasing political risks.

In addition, any tax system that is not linked to the cost of living rate and price index can never achieve social justice. In fact, the annual rise in prices reduces the monthly and annual incomes. If the annual inflation rate is five percent, for example, the purchasing power of taxpayers will decline by the same percentage by the end of the year. Notwithstanding, these taxpayers will have to pay the same tax rate they used to pay. This should be taken into consideration if the tax system is meant to achieve social justice.

Countries worldwide run progressive taxation systems which proved to produce high tax revenues and contribute to achieving social justice. These countries usually stimulate investment through investment promotion laws, with tax exemptions for several renewable years. Of course, some people will disapprove of progressive taxation, but the state should not

succumb to objections by high-income earners. In the United States, for example, a person who earns USD 70,000 annually is taxed higher than a person whose income is only USD 50,000 because different tax rates and brackets apply to them. Furthermore, progressive taxation leads to the gradual redistribution of income. For example, the wealthiest one percent in America contribute about 25 percent of the total taxes collected by the government, while the contribution of the poorest 20 percent of the population stands only at two percent.¹ Progressive taxation, increasing taxes on high-income earners as opposed to lower taxes for low-income earners, plays a significant role in the redistribution of income across individuals.

Many countries apply differential taxation, another important taxation principle which can also contribute to the achievement of justice. This principle classifies taxpayers according to their sources of income and their socioeconomic conditions. For example, the income generated from agricultural products and households, which hold a high added value to the economies of developing countries, are taxed lower than land transactions, trade and speculations in the capital markets, whose added value to the national economy is limited. Also, the tax system should consider the differences between taxpayers' conditions, such as their needs for education and health care.

3. Specific Amendments Proposed to the Law

3.1 The Amending Powers of the Cabinet and the Judicial Powers of Assessing Officers:

Based on the above observations, we suggest making the following amendments to the 2011 law:

First: Repeal Paragraph (2) of Article (12), which gives the Cabinet the powers to amend tax exemptions.

Second: Repeal Paragraph (5) of Article (16), which gives the Cabinet the powers to modify tax brackets.

Third: Amend Paragraph (2) of Article (23), which allows the tax officer or a commissioned employee to enter any facility and keep taxpayers' documents. Such powers should be restricted to very specific conditions, so as to maintain the principle of confidentiality and the privacy of facilities and taxpayers.

¹ The Congress Library, <http://www.alhayat.com/Articles/5826229>

3.2 Tax Brackets and Tax-Exempt Sectors

Within the framework of a fair tax system in the “Income Tax Law of 2011” and its amendments, following are the suggested amendments:

First: amend Article (7) relevant to tax-exempt incomes, specifically paragraph (4) that subjects end of service benefits to taxes, with a maximum of one month for each year. This underlined part (with a maximum of one month for each year) should be repealed, such that end of service benefits are not subjected to taxation. There are two justifications for the proposed amendment. First, the amendment is expected to make the income tax law consistent with the labor laws. Second, according to accountants and certified auditors, Article (7) is difficult to apply in its current form.²

Second: Paragraph (16) of Article (7) on capital gains should be amended. A tax exemption can be granted to the first annual USD 1,000 (or the equivalent in local currency) of the profits generated by trading stocks and securities. This also applies to profits from cash dividends provided by shareholding companies to shareholders, such that the first annual USD 1,000 (or equivalent in the local currency) is tax exempt, coupled with granting full exemptions on dividends between companies in order to avoid double taxation. The purpose of this amendment is multifold: encouraging small investors in the stock and financial markets to continue investing, injecting funds necessary to expanding investment and developing companies and economic facilities, and encouraging the culture of savings and investment among the middle class. This comes within the context that the Palestinian financial market is small and lacks depth and liquidity, as the average daily trading position size is less than USD 400,000 and as such the expected treasury revenues are extremely modest.³

Third: it is important to repeal income tax on trust depositories in lieu of paragraph (8) of Article (31). According to the Palestine Monetary Authority, the annual interest paid by banks to depositors is barely USD 30,000,000, including those paid to official agencies and local government councils. Since the 2011 amendment levied a tax of five percent of the interest earned on deposits, the government’s share will be only USD 1,500,000 before deducting the share of official agencies and local government units. In practice, the amendment will create large administrative burdens and

² An interview with ShafeeqAwashreh, a certified auditor, December 12, 2016.

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additional costs that can equal or even outbalance the expected returns.

Fourth: Amend Article (12) relevant to exemptions as follows:

- Amend paragraph (A) by increasing the income tax threshold from ILS 36,000 to ILS 42,000.
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- Amend paragraph (F) which limits the number of tax-exempt university students to only two. We suggest removing limitations on this item in light of the perceived importance of university education among Palestinian families. It would also be important to grant an additional ILS 4,000 tax exemption per year for natural taxpayers with three dependencies or more and ILS 2,000 for households raising a member with disability.

Fifth: Add a new article that levies 10 percent on profits arising from real estate transactions by individuals (sale and purchase of land and apartments) or three percent on the net value of the transactions.

3.3 Tax Rates and Brackets

The proposed system will run six brackets instead of three. The table below compares the proposed tax brackets with the current system.

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Bracket 6	-----	-----	More than 480,000	30%

Obviously, the low incomes, around the subsistence level, are exempted from income tax, while the lower middle class and the upper middle class are taxed three to seven percent rates. In Jordan, the progressive tax reaches up to 30 percent, and people there, specifically those who run businesses, are accustomed to that and do not protest. Why do we expect protests by

taxpayers in Palestine against the 30 percent bracket when they do not protest in Jordan? Furthermore, these new rates and brackets will increase tax revenues.

3.4 Tax Brackets on Companies

The following tax rates are proposed for companies:

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The Palestinian legislature (the executive power in the Palestinian case) has made a positive step that can be a foundation for further improvements. The 2015 amendment excluded monopolistic and telecommunications companies from the 15 percent rate, and such companies continued to pay the 20 percent rate.

The 10 percent rate for agricultural companies would encourage the reclamation of land, the expansion in producing food security products and prevent facilitation of confiscation of abandoned land by occupation authorities. Regarding other companies, monopoly companies across the world pay taxes on profits that reach 35 percent, in addition to the fees and concession rights that are renewed every five or ten years. The same applies to the income tax on profits of banks and telecommunication companies, which reach in many countries 35 percent. Regarding real estate companies, they have a high profit margin, and as such a tax rate of 25 percent is relatively reasonable.