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The Case of Income Tax Evasion in Jordan: Symptoms and Solutions

Abstract

Purpose- The purpose of this paper is to examine income tax evasion in Jordan and set forth various cures for this problem.

Design/methodology/approach- The paper investigates the phenomenon of income tax evasion. In doing so, the paper reviews reports from academics and statistics from the Income Tax Department. The paper begins with an overview of the Income Tax Law. The paper then distinguishes between tax evasion and tax avoidance and provides empirical data on the size of income tax evasion in Jordan. A study of article 42 of the Income Tax Law, the anti-tax evasion provision, is made. In the final analysis, the paper suggests several means that can be used to address income tax evasion.

Findings- The paper concludes that, in so far as the Jordanian government is concerned with the issue of income tax evasion, several legal and non-legal techniques can be experimented.

Originality/value- In reacting to huge non-compliance by Jordanians, the paper tells the story of how to create an income tax compliance culture. The government can utilize various practices, techniques, and discourses to create such a culture.

Keywords: Income Tax Law, Jordan, Tax evasion

Paper type: Research paper

1. Introduction

The role of taxes in Jordan has developed dramatically to enable the government to implement its fiscal policy in order to become more independent (Margalioth, 2003). The tax system in Jordan was expanded to achieve not only fiscal objectives but also economic and social objectives. Taxes in Jordan are fiscal instruments used by the government to spur the national economy, promote investment in sustainable projects, control consumption of commodities and services, and remedy income disparities among individuals (Avi-Yonah, 2006). The Jordanian government has given top priority to reform the tax system to achieve integration and comprehensiveness in direct and indirect taxes and achieve tax equality.

Tax rules in Jordan come from different sources. The most important source is the Constitution which provides general principles that guide the government in enacting further tax laws. Other complementary laws include the Customs Law No. 20 of 1998 and its amendments. There are also government decrees, regulations, and instructions that form a source of tax law in Jordan.

This article does not attempt to provide a full account of the history and details of the income tax system in Jordan. Its aim is far more modest. It seeks to provide an insight into the problem of tax evasion in Jordan. The current article aims at identifying the symptoms of tax evasion and suggests ways of tackling it. However, before proceeding, it is worthwhile briefing the tax system of Jordan to pin down the phenomenon of tax evasion, to understand its constituent parts, and to evaluate how it might be alleviated.

2. Overview of the Jordanian Tax System

The constitution is the most important source of Jordanian tax law. Besides delineating the forms of the three government branches (legislative, executive, and judiciary) and securing the rights of its citizens, the Jordanian Constitution sets forth general tax principles that must be followed (Jordan Constitution, 1952). In a manner similar for example to the U.S. tax system, the Jordanian tax system is flexible (Simon, 1991). The Jordanian Constitution does not enumerate all taxes that may be imposed, but rather imposes general principles of taxation, thus the government has more freedom to enact statutory laws levying taxes.

The Jordanian constitution imposed limitations on the power to tax. The purpose of the existing limitations on taxing power is to safeguard certain guarantees of taxpayers such as equality and social justice. The most relevant constitutional

limitation on the power to tax is the legality principle. According to article 111 of the Jordanian Constitution, taxes may only be imposed pursuant to law. Thus, the government and any other entity cannot impose taxes, or increase or amend taxes, except by means of law. The legality principle does not permit exceptions. This means that even for extraordinary cases, such as the imposition of a tax for a public crisis, the legality principle must be respected. If not respected, the imposition of a tax not in accordance with the legality principle will be unconstitutional.

In levying taxes, the government must see to it that taxes achieve equality and social justice. Thus, pursuant to the Jordanian Constitution, taxes should be progressive in nature. In Jordan, the tax rate structure is progressive: high income individuals pay a greater percentage of their income to the government than do low income individuals (Income Tax Law No. 57 of 1985 and its amendments). For example, the first \$2000 of income might be taxed at 5 percent, while the next \$4000 income might be taxed at 10 percent. There are many arguments advanced for imposing progressive taxes. A detailed discussion of all such arguments is beyond the scope of this article; but for our purposes, it is sufficient to state that in general a progressive tax imposes certain efficiency costs and redistributes wealth from high-income to low-income individuals (Livingston, 2000; Griffith, 2004; Kornhauser, 2005). The wealthy should bear an increased tax burden because they are more blessed and fortunate than others. It is fairer for government to raise \$3,000,000 from one taxpayer who earned \$10,000,000 than to raise the \$10,000 from a taxpayer who earns only \$20,000. Because there are gaps in income, income redistribution would greatly benefit the disadvantaged, thus making the whole society better off.

The Jordanian Constitution also sets forth other limitations on the power to tax. Under the Constitution, any amount of tax levied must not exceed the ability of those

taxed and should not exceed the actual need of the state for funds. This principle is important in order to ensure the practical applicability of the tax system.

Other than these limitations, the Constitution does not provide any further. For example, the Constitution does not state any reference to the non-retroactivity principle whereby no tax may be imposed when the taxable event occurred prior to the law's taking effect. Furthermore, the Constitution does not make a reference to the anteriority principle whereby no tax may be levied unless it is imposed by a law that came into effect before the beginning of the fiscal year. The absence of this principle would lead to allocation by days or to complexities that result when the rules are changed during the year.

The Jordanian tax system is not totally dependent upon the Constitution, but it also depends upon statutory law and case law. More specifically, the Income Tax Law No. 57 of 1985 and its amendments is the second source of the Jordanian tax system. The purpose of the Income Tax Law is to dictate some general rules related to definitions of taxpayers and taxes, tax obligation, and tax administration.

3. The Income Tax Law

Income tax plays a crucial role in Jordan because it furnishes the treasury with almost forty percent of its total revenues (Moore, 2004). The first income tax law on was promulgated in 1933. The 1933 Income Tax Law, however, applied only to salaries and wages. The 1933 Income Tax Law was modified in 1935 and 1936 to extend tax exemptions for army personnel. In 1945, the Income Tax Law expanded taxable items to include profits and earning of any handicraft, trade or occupation. In 1964, Jordan issued the Income Tax Law No. 25 of 1964 which provided for exempted incomes, in addition to family and personal exemptions, and set up a

specialized court to hear tax cases. The government endorsed the Income Tax Law No. 34 for 1982 which provided for the first time tax returns or self-assessment returns. In 1985, the government decreed the Income Tax Law No. 57 of 1985 which provided further tax exemptions and incentives.

The Jordanian tax law provides that taxes are compulsory payments, collected for state and public welfare. They are to be collected from natural individuals as well as enterprises. The Income Tax Law No. 57 of 1985, in article 3, divided taxable incomes into two main divisions: taxable income achieved inside Jordan and taxable income achieved outside Jordan. After taking into consideration all allowances, such as education, owner-occupied housing, and dependents, accorded by the Jordanian legislator for the natural individual, taxable incomes are fixed according to the tax rates as detailed in the provisions of article 16.a of the Income Tax Law No. 57 of 1985. Individual income taxes are assessed at four rates, 5 percent, 10 percent, 20 percent, and 25 percent. Thus, the current tax rate structure is progressive and is implemented through a series of graduated rates. The Jordanian legislator -- for purposes of taxation -- did not distinguish between natural Jordanians and foreign individuals. Any income earned in Jordan whether by Jordanian or foreigner is subject to taxation.

With regard to companies, profit taxes vary between 15 percent and 35 percent depending on the sector concerned. For example, taxable income generated in the mining industry is charged at the rate of 15 percent, insurance companies is charged at the rate of 25 percent, and banks and financial companies is charged at the rate of 35 percent (Income Tax Law No. 57 of 1985, article 16.b). When compared with taxes on natural individuals, the tax rate on companies is fixed as a set of percentage. For

tax purposes, the Jordanian legislator did not distinguish between Jordanian and foreign companies operating in Jordan.

The Jordanian legislator, in a bid to encourage investment of Jordanian funds, resources and savings and to avoid the transfer of same to capital markets outside Jordan in order to evade taxation thereon, has expanded the scope of sources of taxable incomes to include incomes accruing to any Jordanian or resident outside Jordan. Provisions of article 3.b of the Income Tax Law No. 57 of 1985 stipulate that all incomes, including interests, commissions, investment returns, profits of trading in currencies, valuable metals, and securities which are generated outside Jordan by any Jordanian or resident and that arise from his funds and deposits inside Jordan shall be subject to taxation. However, the Jordanian law provides for tax credit. Taxes paid by taxpayers in Jordan shall be reduced by the amount of tax collected from the taxpayer outside Jordan. This rule avoids the possibility of double-taxation.

The income tax is assessed annually (Income Tax Law No. 57 of 1985, article 5.a). This is reasonable since for the government to be able to spend periodically, it must collect revenue periodically. A taxpayer has to account income, submit statement of accounts, account amounts of taxes to be paid, and pay them in due time. If a taxpayer is entitled to a tax refund, the amount of the refund will be netted with other tax obligations and refunded to him after receiving the application from the taxpayer.

Taxpayers must register for a tax identification number. According to article 26 of the Income Tax Law, any taxpayer must also file a tax return with the Income Tax Department within four months after the end of the financial year. There are penalties for delay in tax payment (Income Tax Law No. 57 of 1985, article 36). If there is a

delay in paying, a monetary sum equal to 1.5 percent of the total amount is assessed. The presence of this penalty discourages taxpayers not to delay payment.

Taxpayers, and their management in the case of companies and other institutions, are responsible for the correct tax accounting and timely payment unless otherwise envisaged by legislation. Based on article 23 of the Income Tax Law, taxpayers who do not submit the accounting documents, or who submit documents that do not comply with the requirements, shall have the Income Tax Department perform its own accounting. Information obtained by tax inspectors during the course of a tax inspection may be used to collect taxes.

Taxpayers can appeal against activities and tax decisions of the Income Tax Department. Specifically, taxpayers may appeal activities of the Income Tax Department officers to the senior body within the Department. Taxpayers may also appeal, within 30 days of notification, against decisions of the Income Tax Department before Court of Appeals for Income Tax Cases and the Court of Cassation (Court of Cassation Case No. 377/93). An appeal against the activities of the Income Tax Department officers does not suspend further collection of taxes. However, the court that examines the appeal may suspend tax collection until a decision is made. The series of administrative and judicial reviews afford taxpayers due process.

4. Tax Evasion Versus Tax Avoidance

When faced with numerous alternatives to reach the same desired result, individuals and legal entities most likely will choose the one for which they will incur the least income tax liability. This is known as tax planning (Habeeb, 1994). However, tax planning strategies encounter boundaries that are sometimes extremely difficult to draw. For instance, there is a gray area between tax avoidance, which is a

legal tax saving, and tax evasion, which is illegal. Therefore, for the purpose of this article, it is important to make a distinction between tax evasion and tax avoidance.

In general, tax avoidance can be defined as the act of taking advantage of legally available opportunities to minimize one's tax liability (Garner, 1999). On the other hand, tax evasion is defined as the willful attempt to defeat or circumvent the tax law in order to illegally reduce one's tax liability. Based on this definition, tax evasion is illegal while tax avoidance is a legal way of saving taxes.

Although there is no explicit statutory provision in the Income Tax Law of 1985 that would permit a taxpayer to do so, it is well established that a taxpayer may decrease the amount of what otherwise would be his taxes, or altogether avoid them, by means which the law permits. For example, the taxpayer may take advantage of a loophole in the law to minimize his income tax burden. Additionally, the taxpayer may enter into a transaction with the aim at reducing his tax burden. In any of these examples, the taxpayer may seem as if he abused the law and violated its purpose. However, the taxpayer cannot be obliged to pay more taxes as long as his activities are not forbidden by law. In sum, if there is no fraud or deceit, the Income Tax Department cannot impose tax on activities that do not correspond to any taxable events set forth in the tax law.

5. Tax Evasion in Jordan

According to the Jordanian Income Tax Law, tax evasion involves willful actions or attempted actions taken by taxpayers with the aim at evading or reducing the payment of tax (Income Tax Law No. 57 of 1985, article 42). To prove tax evasion, the Income Tax Department must establish an act constituting an evasion or attempted evasion of the tax and willfulness. The language of Income Tax Law has no requirement of proving the amount of tax evasion. The critical issue is whether there

was an evasion, not the amount of tax evasion. Furthermore, the Income Tax Law does not require the perpetrator to actually succeed in his attempt to evade or defeat the tax.

The crime of tax evasion requires a positive action. Hence, a mere passive neglect of the statutory duty is insufficient to establish a violation. Acts such as submitting incorrect statement of accounts, making false entries or alterations, or false books or records, destruction of books or records, concealment of assets or covering up sources of income constitute tax evasion (Income Tax Law No. 57 of 1985, article 42).

Willfulness is the intentional violation of a known legal duty (Najm, 2006). To prove willfulness, the Income Tax Department must show that the taxpayer had a specific intent to commit the offense. To make this showing, the Income Tax Department must demonstrate more than mere carelessness. There must be bad faith on the part of the taxpayer. Intent and bad faith are issues of facts that will be determined on a case-by-case basis. For instance, to determine the presence of intent and bad faith, Court of Appeals for Income Tax Cases can take into account the surrounding circumstances of the case, the taxpayer's conduct, past record of compliance, and sophistication and level of education of the taxpayer.

The anti-tax evasion provisions in the Income Tax Law apply not only to the taxpayer himself, but also to anyone who willfully aids or assists a taxpayer in evading a tax. The aiding and assisting language requires two elements for conviction: an act of aiding and willfulness. Thus, the law attaches liability to any person who knowingly participates in tax evasion such as accountants, lawyers, and tax preparers.

Tax evasion is a misdemeanor punishable in both civil and criminal contexts. The Income Tax Law, in article 42, imposes a penalty double the total amount of the tax

evaded. This penalty is designed to compensate the treasury for any revenue forgone and the injury the evasion inflicted upon the state. Also, the Income Tax Law imposes a fine between Jordanian Dinar 100 (equivalent to US \$141) and Jordanian Dinar 500 (equivalent to US \$706), or imprisonment between one week and one year. The Income Tax Law does not impose both fine and imprisonment on tax evaders. The Income Tax Law does not consider tax evasion a felony carrying a higher fine (more than Jordan Dinar 10,000) and longer prison term (more than three or five years).

It is noticeable that the Income Tax Law prescribed the same punishment for the tax evasion attempt as it did for the completed act. The legislative record does not explain why the law divided the tax offense into evasion and attempted evasion, while it provided the same punishment. Separate references to the attempt and the completed act seem unnecessary because the law prescribed the same punishment for the attempt as well as the completed act. The law also does not provide a possible penalty adjustments for repeat of felonious conduct. For example, if the taxpayer repeatedly falsifies books or records, the offense penalty should be increased.

5.1 Tax Evasion in Numbers: Historical and Current Evidence

The Income Tax Department collects approximately Jordanian Dinar 411.4 million in income tax, which is less than it believes it should (Central Bank of Jordan, 2006). Over the past thirty years, there has been a gap between the income tax estimated by taxpayers and the income tax actually collected after adjustments made by the Income Tax Department staff. In the late 1970s and early 1980s, the difference between estimated income tax and the income tax actually collected stood at 21.2 percent; in the 1980s and 1990s the difference was 46 percent; and from 2001 to 2005 the difference increased to 69 percent (Kettaneh, 1998; The Income Tax Department, 2006). Similar differences have been observed at a more specific level in the banking

sector, a sector that falls within the highest income tax bracket of 35 percent and contributes over 30.54 percent to total revenues of the Income Tax Department (Haddad, 1999). For example, in 1996, the percentage of change between declared income tax by banks and adjusted tax made by the Income Tax Department was 124.87 percent. The differences between declared and adjusted income tax at the banking level better sheds the light on the magnitude of the tax evasion problem in Jordan.

While the tax evasion problem is most visible in the formal economy, it is certainly far from negligible in the informal economy. A report estimated that the informal economy in Jordan was equivalent to 19.4 percent of its official GNP (The Economist, 2004). People in the cash economy may pay very little tax. Quantifying and detecting this evasion is notoriously difficult. Unlike deductions and credits that appear on tax returns and must be substantiated if questioned, cash transactions may not be reflected in any set of records. As a result, small business owners and household workers in Jordan have the lowest level of tax compliance.

The time-series statistics mentioned earlier point unambiguously to a negative picture. The tax gap between declared income tax and adjusted income tax is not only large, but has more than tripled over the past three decades and continues to grow. According to some estimates, the largest portion of the tax gap is due to underreporting of revenues and unwarranted deductions (Abu-Nassar and Uqla, 2000). Large and well-known companies see their tax planning strategies struck down as devious tax evasion and are forced to pay penalties on top of the tax they had hoped to avoid. In sum, wherever opportunities to avoid or evade taxes present themselves, many Jordanian taxpayers are eager to take advantage. The gap between declared and adjusted income tax is sign of a serious tax compliance problem.

5.2 Symptoms of the Problem of Tax Evasion

There are two factors that provide possible explanations for income tax evasion by Jordanians: flaws within the current Income Tax Law; and factors external to the current law. Frequent changes in Income Tax Law have served to complicate the tax regime. Over the past years, there have been thirteen modifications made to the Income Tax Law including seven substantive amendments (Abu-Nassar et al., 2003). In addition, there are many other tax regulations, tax schedules, government instructions, and ministerial orders and rulings. Changes in the Income Tax Law and regulations make it difficult for a taxpayer to get tax return exactly right.

Taxpayers may not know the Income Tax Law well enough to complete their own tax returns and may not understand all the questions on tax returns. Lack of knowledge explains why taxpayers employ tax professionals. Tax professionals have greater technical knowledge, can maneuver through complex tax law, and maximize tax refunds. However, tax professionals could face a dilemma of balancing ethical tax behavior and client expectations of tax refunds or even evasion (Ramadan et al., 1990; Becker, 1996). Tax professionals operate using established accounting practices and general guidelines. At present, there is no code of ethics for tax professionals in Jordan.

The Income Tax Law is written in broad general language susceptible to varying interpretations. For example, it remains unclear whether income derived in Jordan shall be subject to tax even if the contract which led to this income is signed abroad. Corporations are subject to differentiated rates with the purpose of encouraging certain activities such as industry and exporting. Rate differentiation between corporations is difficult to administer especially when corporations are integrated and carry on different economic activities (Abdel-Rahman, 2001). In addition, there is a

plethora of tax exemptions and deductions, such as bad debts and expenses of previous years, which make it difficult to understand which allowable deductions a taxpayer can claim.

Article 42 of the Income Tax Law suffers several shortcomings. The provision proscribes that any action or attempt to evade a tax is punishable. The amount of tax evasion is not a necessary element of tax evasion crime. Thus, a person could defraud the Income Tax Department with the tax deficiency being *de minimis*. In this case, that person would be subject to penalties. The Income Tax Law should be amended so that not only that there be an underpayment of tax but also that such deficiency be substantial. Moreover, the Income Tax Law did not set forth stringent penalties for tax evasion. To the contrary, tax evasion in Jordan is categorized as only a misdemeanor and not placed in the more serious category of crimes.

Research studies have recognized the significance of external factors on either complying with tax law or not. External factors include public opinion, tax knowledge, justice or fairness, civic duty, and tax morale (Wenzel, 2005; Orviska and Hudson, 2002; Grasso and Kaplan, 1998; Torgler, 2003). These factors provide explanation for tax evasion in Jordan.

The Jordanian government requires legitimacy from its citizens. However, Jordanian taxpayers possess a generally negative view of their government. Taxpayers cannot point to any concrete improvements in their standards of living and thus see no reason to finance its activities absent any visible changes (The Economist, 1998; Solomon, 2005).

Favors and cronyism penetrate the current Jordanian income tax system, leaving citizens with little motivation to voluntarily comply with such a system. Well-

connected businesses and individuals escape with non-payment of tax. For example, the government has publicly acknowledged that approximately 1500 government officials failed to submit their financial declarations in 2007 in a timely manner (Rasheed, 2007). Thus, many Jordanians notice that the more privileged taxpayers openly disregard the law. Several instances of violence against staff of the Income Tax Department have contributed to difficulties with tax collection, and prove that the current tax regime is unmanageable.

Income taxes are generally perceived as unfair and too high. Jordanian citizens pay more than fourth of their annual incomes in taxes and fees (Abd Al Rahim, 2001). An income tax is imposed on a person's earned income and thus the payment of income tax is seen as the loss of a vested right. The average taxpayer feels that the government is taking away a portion of his income, for the more money he makes, the more income tax he is required to pay.

The size of the informal economy in Jordan can be attributed to the complicated and expensive income taxes. Increase in income taxes encourages many entrepreneurs to opt out of the formal economy. The fact that this informal economy is allowed to escape taxation adds to the perception among citizens that the income tax system is problematic.

Tax evasion is an acute problem in Jordan because of the diversity of its population. Many residents in Jordan come from Palestine and Iraq. For example, in 2003 onward, Iraqi refugees flooded Jordan. Iraqi refugees can gain permanent residency permits if they make large investments in Jordan. U.S. authorities worry that Jordan has become a money-laundering center for ill-gotten Iraqi wealth, potentially to the tune of billions of dollars (Solomon, 2005). The divergent Jordanian

population represents a tremendous challenge because they come from countries where the tax authorities were seen as corrupt or were nonexistent.

5.3 Solutions for Reducing Tax Evasion

The problem of income tax evasion has become the subject of parliamentary debates and newspaper articles (Al-Rai, 2006). Initially, the government reacted to the problem through arbitrary assessment methods (Kettaneh, 1998). This, however, only made the problem worse and led to a breakdown in the relationship between the public and the Income Tax Department. This section of the article suggests several methods to reduce the problem of tax evasion. These methods involve both legal and non-legal techniques.

Procedures to amend the Income Tax Law. The Jordanian government should adopt stricter procedures for the amendment of Income Tax Law. Presumably, these procedures will prevent the frequent changes which have needlessly complicated the current income tax regime.

New tax system. The Jordanian government should put into place a new tax system. Among the new tax system's features are broad tax base and lower rates which could create a more stable economic environment. The law should impose a universal bookkeeping requirement instead of mandating account books in certain professions only such as traders. Other steps that could prove effective in preventing tax evasion include comprehensive withholding requirements for property and business income. The payment of tax owed on this type of income will not be the responsibility of individual taxpayers. Rather, the amount of tax due will be calculated by the enterprise in which the taxpayer worked and that amount will be withheld from the taxpayer's wages.

Jordan could discontinue relying mostly on income taxes for generating revenue. At some point in the future, Jordan should replace its current income-tax system with a consumption tax such as a retail sales tax or a value added tax. A consumption tax system may result in a lower rate of tax evasion than under the current system. The taxpayer regards a tax on consumption as the loss of a mere prospect, for the taxpayer pays no tax until the moment he makes a consumption choice. Taxes on income, however, are perceived as a loss of a vested right rather than the loss of a mere prospect (Feldman, 2002). Taxpayers would probably perceive a broad-based consumption tax as more equitable than the current income-tax system. However, there are a host of factors Jordanian policymakers must consider as they debate the merits of replacing the current income-tax system with a consumption tax. These factors include the type of consumption tax adopted, transition from the current system to the new system, how high the new tax rate should be in order to achieve revenue neutrality, and types of special goods or services to be exempted from the consumption tax (Zorow and McLure, 1991). Further, adopting a consumption tax could involve additional administrative expenses.

Civil and criminal penalties. One method of tackling tax evasion is through penalties. The Income Tax Law No. 57 of 1985 does not provide sufficient deterrence for evasion. Over the years, judges tended to adopt a passive approach toward tax evaders by imposing light sentences. Rarely jail sentences were imposed. The reason for this state of affair could be the fact that tax evasion is widespread. Now, judges should be more willing to impose jail sentences on tax evaders. Civil and criminal penalties should be increased and tax evasion should be upgraded from a misdemeanor to a felony (Al-Shawabkeh, 2003). However, adoption of stringent penalties may have adverse effects by increasing tax non-compliance (Borck, 2004).

Therefore, the government should strike the right balance regarding the correct type and size of remedies.

Tax compliance culture. The government should create tax compliance culture through education by creating for example pamphlets to familiarize school students with the notion of taxation and instill compliance. Moreover, the government can use newspapers, TV advertisements, and public meetings with taxpayers. The purpose of these activities is to develop among the general public a better understanding of the role of the income tax system and of the relationship between proper taxpaying and good citizenship.

Reforming the tax administration. Computerization plays an important role in the effort to improve service. Computers have replaced the previous filing cabinets in the Income Tax Department (Al-Zo'bi, 2006). Specific attention was also paid to redesigning the tax offices. In the past, income tax offices looked like shops rather than government offices. Tax officers sat together in a large open space with many conversations going on simultaneously and the general noise level was high. Now, tax offices have been redesigned whereby there is an information clerk near the entrance, seats are provided for waiting taxpayers, and signs are available. However, reforming the tax administration goes beyond new lighting, decoration, and furniture. There must continuous training for tax officers on how to provide rapid and courteous service.

Tax data collection and selectivity. The Income Tax Department should adopt scientific procedures in collecting data and selecting taxpayers for further audit. For example, tax assessors should audit prominent high-profile taxpayers than relatively small taxpayers who are not providing much revenue. This type of auditing could create positive impact on the compliance attitudes and practices of taxpayers' in

general. The Income Tax department could set up a fraud hotline to report people who seemed to evade their tax obligations. Additionally, tax assessors should communicate more with taxpayers through letters or phones. This type of communication could help minimize the habit of Jordanian taxpayers who just drop in the tax offices without appointment.

Public opinion of government. The negative perception of the government among Jordanians is not a phenomenon that can be easily changed. However, provisions against favoritism, improving enforcement, and further public participation in the tax assessment process would help restore taxpayers' faith in their government. The Income Tax Department, with the assistance of the Department of Statistics, could conduct public opinion surveys to measure taxpayers' attitudes. Public opinion of government could change as a result of future rise in the real income per person.

6. Recent Developments

Income tax reform was included as a component of the National Agenda (Sawalha, 2005). In recognition of the need for reform, the Jordanian government submitted a new draft tax law to the parliament (Ad-dustour, 2007). However, in 2007, following a series of hearings and political maneuvers, the parliament refused to approve the draft tax law, in essence sending the draft back to the beginning of the legislative process.

The draft income tax law simplifies several aspects of the tax system. The draft law eliminates the current plethora of exemptions. For example, the draft intends to unify exemptions for individuals and employees and with a maximum ceiling of Jordanian Dinar 10,000. As for corporate tax, the draft law does away with the current system, under which hotels, industries, hospitals, transport companies and contractors pay a 15 percent tax, and insurance, telecom, service and commercial companies pay

a 25 percent tax. The draft law adopts a flat rate of 20 percent for all economic and commercial sectors with the exclusion of banks which will remain subject to 35 percent tax.

The draft law scrutinizes use of charitable organization status to avoid tax payment, a practice which is currently subject to exploitation. The draft law implements stricter standards for determining what constitutes a charitable organization and charitable activity. The draft tax law also creates a neutral system by eliminating tax incentives such as investment allowances and tax holidays (Ad-dustour, 2007). Jordan still uses these tax incentives. However, these incentives have detrimental effects as a result of loss of revenues without much reward.

The draft law allows auditors of the Income Tax Department to examine bank accounts of taxpayers without the need of judicial authorization. The draft also sets forth stringent penalties for tax evasion which may reduce the externalities which hinder tax collection. Specifically, the draft law adopts non-traditional remedies to deal with the problem of tax evasion to include shaming provisions (Ad-dustour, 2007). The draft law considers the crime of tax evasion a crime against honor and trust.

The draft law is likely to reduce the problem of tax evasion and improve tax collection in Jordan. However, several aspects of the draft may be problematic. For instance, the actual enactment of the draft law will probably be a lengthy process. Additionally, the draft law lacks transitional rules to help guide taxpayers and tax assessors through the changeover from the old regime to the new.

Conclusion

The Income Tax Law, which has evolved over more than seven decades, is at the moment under serious challenge. There is an acute tax evasion problem in Jordan

which reduces effectiveness of the government's operations. The Income Tax law and its accompanied regulations and rules are complex and constantly changing. Several provisions in the Income Tax Law leave room for interpretation that could lead to abuse. Jordan's income tax level is one of highest in the Middle East. Taxpayers are not satisfied with the quality of the public service.

Jordan should establish a less complex and more internationally competitive tax regime. As part of the income tax reform, the Income Tax Department shall make big efforts to try to help taxpayers understand the laws and regulations. The tax law must ensure that everyone pays the fair and correct amount of tax. There should be lower tax rates and in certain cases such as corporations only a single tax rate. Tax evaders should be jailed. However, there must be the possibility of tolerance for small amounts of tax deficiency. At some point in the future, a consumption tax could substitute the current income-tax system.

Income tax evasion is not merely a function of opportunity and detection. The government can use a variety of non-legal techniques. The Income Tax Department must treat taxpayers as clients. The Income Tax Department has a responsibility to uphold the law, but it must also be seen to behave fairly, and demonstrate empathy with taxpayers' individual circumstances. Flexibility in individual cases and improved communication are essential factors in engaging taxpayer confidence and cooperation if the government aims to achieve effective self-assessment and exemplary voluntary compliance. The government should deal with tax evaders by appealing to their sense of patriotism and initiating public relations campaigns. In conclusion, the combination of carrot and stick policies may motivate taxpayers to comply voluntarily with a more objective and fair system of income taxation.

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