EVALUATING TAX EXPENDITURES IN JORDAN

JORDAN FISCAL REFORM II PROJECT

November 2013

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ACRONYMS

ARV	Annual Rental Value
ASEZ	Aqaba Special Economic Zone
ASEZA	Aqaba Special Economic Zone Authority
ASE	Amman Stock Exchange
BLTL	Building and Lands Tax Law
CIT	Corporate Income Tax
DLS	Department of Land and Survey
DOS	Department of Statistics
ETR	Education Tax Regulation
FTA	Free Trade Agreement
GDP	Gross Domestic Product
GOJ	Government of Jordan
GAM	Greater Amman Municipality
GST	General Sales Tax
GSTL	General Sales Tax Law
ITL	Income Tax Law
IPL	Investment Promotion Law
IL	Investment Law
ISTD	Income and Sales Tax Department
MOF	Ministry of Finance
PIT	Personal Income Tax
PSL	Public Sewerage Law
SEPD	Studies and Economic Policy Department
SST	Special Sales Tax

EXECUTIVE SUMMARY

Tax expenditures are spending programs implemented through the tax code. These programs grant people and businesses in Jordan tax relief—through deductions, exclusions, exemptions, deferrals, and preferential rates—in support of various government policies. Some of these programs, however, represent a large fiscal sacrifice to the Government of Jordan in terms of foregone revenue. There is currently no process in place in Jordan to periodically evaluate the foregone revenue to the Government from the various tax expenditures.

International best practice calls for adequate treatment of tax expenditures, requiring the government to estimate the revenue cost, including publishing tax expenditure accounts as part of the budgetary process. Inadequate treatment of tax expenditures are a concern for fiscal accountability and transparency. This report becomes an attempt to comprehensively evaluate the revenue cost of tax expenditures from all major taxes in Jordan, including the income tax (personal and business), the general sales tax (GST and SST), custom duty, and real property tax (transfer fee and annual property tax).

This study develops a tax expenditure framework—establishing a benchmark tax structure to help identify tax expenditures as provisions that deviate from this benchmark tax system. Reasonable differences of opinion exist about what should be considered a benchmark tax system which could understate or overstate the size of tax expenditures. This study follows habitual practices in OECD countries for establishing such benchmark/reference tax.

A review of the various laws providing tax relief in Jordan reveals the existence of at least 80 provisions giving rise to tax expenditures from major tax laws (the Income Tax Law of 2009, the General Sales Tax Law of 2009, the Customs Law of 1998, the Building and Lands Tax Law of 1998, the Investment Promotion Law of 2000, the Development and Free Zones Law, and the Public Funds Exemption Law). There are at least another 14 laws containing tax incentives or provisions, which are not reviewed in detail in this study. (Annex 1 provides a databank of tax provisions in the various laws that give rise to tax expenditures).

Beyond tax relief through provisions in the law, the Council of Ministers is also empowered by law to grant tax relief from sales tax and custom duty on a discretionary basis. Currently, there is no clear framework in place for the granting of tax incentives through this mechanism, nor are there clear policies and procedures for implementation, monitoring and review. This report provides recommendations for devising a rules-based mechanism for the granting of tax incentives through the Council of Ministers to ensure that the program objectives are met at the least cost to the government.

Estimates of tax expenditures presented here follow the foregone revenue approach methodology, which is consistent with most OECD countries that report tax expenditures. The foregone revenue method—an ex-post quantification of reductions in tax revenue (relative to a benchmark) due to tax expenditures—is appropriate when data is limited, tax expenditures are vast, and the most advisable one to begin evaluating tax expenditures. Even countries with many years of experience in measuring tax expenditures and supported with strong historical databases, still produce estimates based on this method. Very few countries use the more sophisticated methods that take into account the complex behavioral effects associated with removal of tax expenditures.

Care must be taken when interpreting estimates. The cost of tax expenditures are not necessarily reliable indicators of the budgetary impact of eliminating a particular tax expenditure and would not necessarily yield the full amount of revenues presented in the tax expenditure calculations. Other factors such as taxpayer behavioral changes, consequential government actions, tax administrative capacity and non-compliance play an important role on subsequent levels of tax revenue collections.

Furthermore, there are major considerations to be taken into account when analyzing tax expenditure aggregates. The cost of some tax expenditures are not reported because of lack of data. Tax expenditure aggregates in this study are therefore an underestimation of the total benefit provided through tax expenditures. In addition, tax expenditure aggregates are net aggregates, which include the offsetting effect of negative tax expenditures.

Tax expenditures quantified in this study include the following:

1. **GST** : zero rating and exemptions (due to: GST exemption schedule, Council of Ministers' exemptions and Investment Promotion Law exemptions—only when the exemption applies to final consumption sales)

2. **Customs duties**: zero rating; trade agreements; and special laws (Council of Ministers, Development Zones and Investment Promotion Law)

3. **PIT**: single and family deductions

4. **CIT**: agricultural income exemption, reduced rates in development zones

5. **Property taxes**: exemptions, depreciation allowance, reduced rates on vacant land

6. **Draft Income Tax Law**: estimates impact on tax expenditures due to new provisions

Using data from various sources (including tax returns, customs declarations, DOS' Household Expenditure and Income Survey (HEIS) of 2010, Input-Output table of 2006, macroeconomic data, and property tax rolls), tax expenditures in Jordan are estimated to be *at least* JD 1,556 million or 7 percent of GDP in 2012. Tax revenue collections in the same year reached 15.2 percent of GDP, where tax expenditures represent at least half the size of collections.

Table 1. Summary of Tax Expenditures in Jordan (2010 - 2012)

in JD million and % of GDP	2012		2010/11	
TOTAL, ALL TAXES	1,556	7.0%	1,507	8.0%
Total, Indirect Taxes	1,043	4.7%	846	4.5%
GST Domestic	342	1.5%	191	1.0%
Due to Zero Rating	263	1.2%	132	0.7%
Due to Exemptions	79	0.4%	59	0.3%
GST Imports	112	0.5%	127	0.7%
Due to zero-rating and exemptions	112	0.5%	127	0.7%
SST Domestic	0.6	0.003%	0.2	0.001%
Due to zero-rating and exemptions	0.6	0.003%	0.2	0.001%
Custom Duty	589	2.7%	528	2.8%
Due to Zero Rating	219	1.0%	195	1.0%
Due to trade agreements	90	0.4%	84	0.4%
According to special agreements:	40	0.18%	42	0.2%
Investment Promotion Law	17	0.08%	18	0.10%
Development Zones/Areas /1	2.5	0.01%	3	0.01%
Council of Ministers Decisions	10	0.05%	11	0.06%
Oil Derivatives	239	1.1%	207	1.10%
Total, Direct Taxes	513	2.3%	661	3.5%
Personal and family deduction	455	2.1%	455	2.4%
Corporate Income Tax	10	0.05%	8	0.04%
Agricultural exemption (company)	0.9	0.00%	0.9	0.005%
ASEZ	7.8	0.04%	6.8	0.04%
Development Zones/Areas /1	1.7	0.01%	0.5	0.002%
Real property taxes	48	0.2%	198	1.1%
GAM	41	0.2%	41	0.2%
All other municipalities	6.8	0.0%	6.8	0.04%
DLS incentive - all municipalities	-		150	0.80%
Draft Income Tax Law				
Personal and Family Deduction	**756**			

Note: Total tax expenditures are derived by summing the individual tax expenditure estimates and it excludes estimates that are unquantifiable.

Highlights from this tax expenditure study include:

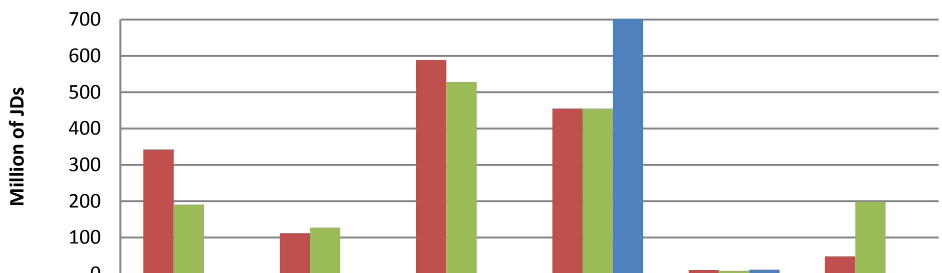
- Total tax expenditures are estimated to be at least JD 1,556 million in 2012, or around 7 percent of GDP. This has increased from JD 1,507 million in 2010, but a decrease relative to GDP, at 8 percent.
- The largest single tax expenditure for 2012 are for the single and family deduction allowance (JD 455 million), followed by zero rating of domestic sales tax (JD 263 million).
- The largest increase in tax expenditures from 2010 to 2012 belongs to zero rating from domestic sales tax, a double in tax expenditures from this category, mainly due to the

- proliferation of zero rated items which have eroded the tax base over time (see Figure 1).
- Increases in tax expenditures from custom duty in 2012 is due to larger volumes of goods exempted from the levy due to zero rates, trade agreements and oil derivatives.
- The most significant reduction in tax expenditure in 2012 involves the expiration of the reduced-rate transfer fee—used as a real estate incentive in 2010—which cost the government JD 150 million in forgone revenue.
- Though smaller in magnitude, tax expenditures from municipal taxes amount to JD 48 million, an important quantity relative to municipalities' budgets that depend on municipal tax revenues to deliver basic services at the local level.

Tax expenditures from the deduction allowances from the PIT represent an important size of forgone revenue considering that it exempts more than 95 percent of the potential taxpaying population. A study on tax incidence (USAID, FRPII 2013) reveals that indirect taxes in Jordan are relatively proportional across deciles and progressivity of the tax system originates from direct taxation. However, this progressivity is highly concentrated in the top decile—that is the top 10 percent income earners in Jordan. The largely exempted income—combined with the high concentration of burden in the top decile—provides the GOJ an opportunity to reduce tax expenditures while more evenly distributing tax burden across deciles by reducing the deduction allowances from the personal income tax. While the draft Income Tax Law proposes to reduce these deduction allowances, analysis in this study estimates that the GOJ should consider further reducing the deduction allowance to levels closer to JD 5,000—consistent with the absolute poverty level in Jordan, currently at JD 4,392.

Provisions in the draft Income Tax Law (ITL) give rise to greater levels of foregone revenue. The estimate presented here represents the combined simultaneous effect of a reduction in exemption levels and a rise in tax rates from 7/14 to 10/20/25, with progressivity beginning at lower levels of income than the current legislation. The interaction between the two provisions (one offsetting the other) produces a combined net effect that results in revenue loss that is superior to the level under the current tax law.

Figure 1. Trends in Jordan's Tax Expenditures 2010 - 2012



	GST Domestic	GST Imports	Custom Duty	PIT	CIT	Real Property Taxes
2012	342	112	589	455	10.5	48
2010	191	127	528	455	8.1	198
Draft ITL				756	11.3	

The proposed higher and more progressive tax rates under the draft ITL—though they give rise to higher levels of forgone revenue—they are not particularly undesirable, as they bring personal income taxation in Jordan closer to international standards while contributing to mobilizing greater tax revenue. This phenomenon in estimating tax expenditures emphasizes the sensitive nature in drawing normative conclusions from a rise or fall of tax expenditures. The new exemption thresholds continue to exempt the majority of the population (approximately 90 percent), further emphasizing the opportunity to reduce the exemption allowances for both singles and families.

The cost of some tax expenditures are not reported owing to lack of data. Creating a comprehensive tax expenditure budget would require improving reporting of data and management. For instance, tax expenditures from reduced 4 and 8 percent tax on sales could not be quantified since tax returns do not differentiate between standard rate sales and reduced rate sales. Additionally, there are no detailed records about volume of sales benefitting from Council of Ministers' exemptions to sales tax, that is, these cannot be differentiated from other exemptions from tax records. As the GOJ improves the availability and quality of data reporting the number of quantifiable tax expenditures can increase over time.

Tax expenditures, like direct expenditures, affect the GOJ's budget. Improving transparency and scrutiny of tax expenditures depends on the GOJ's commitment to estimate and review tax expenditures on a regular basis—analyzing trends, building databases across time, and increasing the number of quantifiable tax expenditures. Initially, the GOJ could prioritize the analysis of key tax expenditures presented in this study, particularly analyzing trends on the revenue forgone due to exemptions and rate differentiation on the sales tax, and tax incentives under the Investment Law.

Anticipating ongoing policy discussions on tax reforms leading to a more efficient, equitable and productive tax system, policy options and recommendations to streamline many of the tax expenditures that generate significant fiscal sacrifice to the GOJ are included in Table 2. Recommendations to improve transparency and fiscal accountability in the budget process as it relates to tax expenditures are also included.

Reducing or eliminating some of these tax concessions would negatively impact specific interest groups or segments of the population and from a political perspective these may not be easy to implement. From an economic perspective, the measures recommended would have a positive impact on the general welfare of Jordanians, while improving transparency, efficiency and fairness in the tax system.

Table 2. Policy Options and Recommendations for streamlining tax expenditures

Personal Income Tax

- *Rate structure:* rates proposed in the new draft ITL are on par with international standards (10/15/25). Needs to be coupled with a further reduction in the exemption allowance to make progressivity effective. Increase the withholding rate (as final tax) on interest income and income from lottery prizes.

- *Exemptions:* Limit deduction to JD 5,000 for principal taxpayer and JD 10,000 for families
- *Agricultural income exemption:* eliminate for both individuals and legal entities.
- *Capital Gains:* Treat all capital gains (including gains on corporate stock) as ordinary income subject to full taxation.

Business Taxation

- *Special investment incentives*: No new incentives; specify clear "sunset" clause on grandfathered incentives.
- *Exemptions:* Limit to certain entities, including some income sources of non-profit organizations. Eliminate multiplicity of laws providing income tax incentives. Set out clear commencement rules for income taxation in Development and Free Zones.
- *SMEs:* Introduce a special tax regime.
- *Harmonize laws:* Ensure that new IL does not violate provisions found in the ITL.

General Sales Tax

- *Zero rates:* Limit application only to exports. Move specific merit items to the reduced rate schedule of 8 percent. Remaining items can join the exempted items schedule to reduce refunds and minimize foregone revenue.
- *Exemptions:* Revoke exemptions to specific sectors through the new IL. Eliminate items in the exemption list, or move merit items (food items) to the reduced rate schedule of 8 percent
- *Reduced Rate:* current base for preferential rate is too broad; constrain to a small number of basic necessities considered to be material components of low income household consumption. Keep only one reduced rate schedule, either 4 or 8 percent.

Custom Duty

- *Zero rating*: rationalize list of entities and items on this list.
- *Special exemptions by Council of Ministers:* Do away with ad hoc decisions on this exemption, or establish a rule-based approach as presented in this study.

Property Taxes

- *Property tax rates:* increase rate on vacant land. Reduce rate if property assessment is changed to capital value.
- *Property values:* do a general revaluation which is well overdue. Consider moving to capital valuation coupled with a reduction in tax rates.
- *Exemptions:* consolidate exemptions lists for the municipal, sewerage and education tax.
- *20 percent depreciation allowance:* eliminate, or provide homestead exemption for owner occupied housing.
- *Transfer tax:* lower the rate, eventually do away with the tax and substitute with capital gains tax, or compensate loss from annual property tax collections.

Investment Incentive Scheme

- *Income tax exemptions:* provide clear sunset clauses for grandfathered incentives and for investments operating in the Development Zones.
- *Exemptions:* eliminate favoritism with certain sectors of the economy; exempt all or tax all.
- *Structure:* Restructure the cumbersome, multi-layered investment incentive scheme; consolidate into a new scheme that is neutral with respect to the various categories of investment. Eliminate discretionary ad-hoc granting of investment incentives.

Council of Ministers Decisions

- Eliminate discretionary power, or
- Devise a rules-based mechanism: (1) Set a target of JDX mill to be granted in exemptions p/year; (2) Set policies and procedures (i.e. max allowance p/investment; sunset/commencement rules; (3) Monitoring and Review (reporting requirements for beneficiaries)
- Assess the success or failure of the incentive program.
- Publish requirements for approved awards.

Evaluating Tax Expenditures

- *Data:* Create a Tax Expenditure data framework; aim at quantifying annually; review impact of programs that use tax expenditure mechanism.
- *Reporting:* Produce an annual tax expenditure study to evaluate proposed changes to the tax law and estimate the impact on tax expenditures, as well as changes on tax expenditures over time.

Tax Expenditures in the Budget Process

- *Transparency and Accountability:* publish an annual tax expenditure report as part of the annual budget process and subject to scrutiny.
- *Control spending from tax expenditures*: impose thresholds and/or ceilings, particularly for exemptions granted through the Council of Ministers (if this mechanism remains).

1. INTRODUCTION

1.1. Background and Purpose of the Study

As part of the Government of Jordan (GOJ)'s economic program, the Ministry of Finance (MOF) has requested FRPII to support the development of two important tax studies aimed at tax revenue mobilization and informed tax policy discussions around the new proposed income tax law. The first study is on tax incidence—who ultimately bears the burden of the taxes in Jordan—and the second study calls for an evaluation of tax expenditures—assessing the costs, in terms of forgone revenue, of various tax provisions that grant tax breaks for certain taxpayers and activities.

The study contained herein presents an evaluation of tax expenditures in Jordan between 2010 and 2012, for all major taxes. Tax expenditures are spending programs implemented through the tax code. These programs grant people and businesses in Jordan special tax deductions, exclusions, exemptions, deferrals, and preferential rates in support of various government policies. Some of these programs are meant to promote trade, encourage companies to invest in the country, promote equity, and much more.

While direct budgetary expenditures are evaluated every budget cycle—and are approved, adjusted, or rejected during the budget process—there is currently no process in place in Jordan to review or periodically re-evaluate tax expenditures once they are passed and placed in the law. Inadequate treatment of tax expenditures are a concern for fiscal accountability and transparency. They represent a large share of discretionary spending and excluding them from the GOJ's fiscal analysis and from the budget process can pose serious tradeoffs in budget allocations across functions, sectors, and other spending constraint to expenditures financed by tax revenues collected.

While some positive change has occurred to streamline the complex exemptions scheme in Jordan—such as the repeal of tax holidays to income taxation provided by discretionary decisions of the Council of Ministers (effective January 2010)—other changes have contributed to the upsurge in the level of tax expenditures—such as the proliferation of zero rated items from the General Sales Tax (GST)' schedule (from 6 to 97 zero rated items from 2010 to 2013).

Improving fiscal accountability and transparency of the budget process involves establishing an adequate tax expenditure framework—building appropriate databases to estimate the cost of tax expenditures—for inclusion in the budget review process to ensure that tax expenditures are efficiently delivering the desired results. The FRPII team is currently training economists and analysts of the Ministry of Finance to periodically evaluate tax expenditures.

In 2011, FRPII and the MOF undertook the first evaluation of tax expenditures in Jordan across all major taxes. The first study in 2011 provided a basic framework for the evaluation of tax expenditures—establishing a basic benchmark/reference tax system and identifying tax expenditures from the different tax laws. The current tax expenditure study improves upon the previous study as follows:

(1) estimates tax expenditures based on micro data thus improving the accuracy of estimations;
(2) compares tax expenditure estimates for fiscal years 2010 and 2012 (where data is available);
(3) estimates tax expenditures under the draft Income Tax Law;
(4) evaluates institutional aspects in the granting of exemptions by the Council of Ministers (composed of the Cabinet and empowered by law to make decisions on the granting of tax exemptions to projects and investments operating in Jordan);
(5) provides options and recommendations for streamlining tax expenditures (and potentially mobilizing greater tax revenue) based on international best practice; and
(6) represents a proposal for the integral and systemic evaluation of tax expenditures in Jordan—an important public policy instrument.

Additionally, the current study is timely, providing important input for policy discussions as drafts of the Income Tax Law (ITL) and Investment Law (IL) are currently undergoing revisions by both the executive and legislative bodies. This study provides a quantification of tax expenditures as provided in the draft ITL (version as of May 2013). However, tax expenditures under the draft IL are not quantified in this report as the draft law does not define the scope of exemptions—the list of sectors that shall enjoy zero rates and exemptions from custom duty and sales tax on their inputs and the means for calculating income tax exemptions to development and free zones.

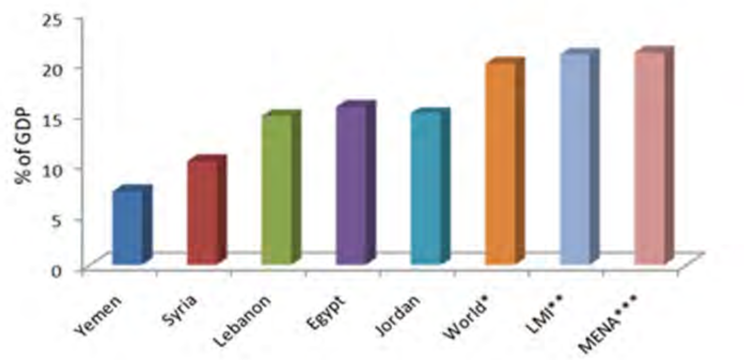
1.2. Revenue performance in Jordan

Tax revenue in Jordan is underperforming relative to its peers (Figure 2). Tax revenue in Jordan reached a peak at 20 percent of GDP in 2007 and has been declining ever since. In 2012, the level of tax revenue as a percent of GDP was nearly stagnant relative to 2011. While tax revenue from foreign trade has been decreasing—which is consistent with international trends—collections from direct taxes as well as from the sales tax have not compensated for such decline (Figure 3). In fact, tax collections from the personal and corporate income have been declining since 2009. Provisions introduced in the temporary Tax Law of 2009, such as the level of exemptions at JD 12,000 for singles and JD 24,000 for families, coupled with a number of other provisions that provide exemptions on income have eroded the tax base over time.

While the sales tax is a broad based tax, its tax base has been put at risk due to the numerous tax incentive provisions providing tax relief from the sales tax provided through the various laws, and tax incentive programs to different sector, regions, and discretionary decisions from the Council of Minister. Additionally, the schedules that accompany the sales tax on zero rated items, exempted items and reduced rated items have been expanding over time, also eroding the GST's tax base.

Taxes on real property—a main source of revenue for local governments—is also fragmented due to numerous exemptions, allowances, and reduced rates. Mobilizing greater tax revenue in Jordan is vital for meeting the public expenditure needs and public investment objectives to achieve greater economic growth. This study evaluates tax expenditures—quantifying the foregone revenue to the government due to the various provisions providing tax relief. This study also helps to inform policy discussions around the draft income tax and investment laws with the aim to mobilize greater tax revenues in Jordan.

Figure 2. Jordan's tax performance versus the world



Source: USAID's Tax Benchmarking Study (2013)

Figure 3. Tax Revenue Performance (2003-2012)

Table 3. Jordan: Tax Revenue Performance, 2003 - 2012

	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
	In percent of GDP									
Tax and Non-tax revenue	22.9	25.9	28.3	29.2	29.5	25.5	24.5	22.7	20.5	21.4
Tax revenue	15.0	17.7	19.8	20.0	20.4	17.7	17.0	15.9	14.9	15.2
Taxes on income and profits	2.7	2.8	3.2	3.8	4.0	3.8	4.5	3.3	3.2	3.1
Corporations	1.8	1.8	2.2	3.0	3.3	3.0	3.5	2.5	2.5	2.5
Individuals	0.5	0.5	0.5	0.4	0.4	0.4	0.5	0.5	0.4	0.3
Salaried employees	0.3	0.3	0.4	0.3	0.3	0.3	0.4	0.3	0.3	0.3
Other income and profit taxes	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.0	0.0	0.0
Taxes on foreign trade	2.9	3.3	3.4	3.0	2.6	1.8	1.6	1.5	1.4	1.3
General sales tax	8.3	10.2	11.5	11.4	12.1	10.7	9.9	10.6	9.9	10.3
Other taxes	1.1	1.4	1.7	1.8	1.7	1.3	1.0	0.5	0.4	0.5
Non-tax revenue	7.9	8.2	8.5	9.2	9.1	7.8	7.5	6.8	5.6	6.2
of which Fees	3.5	4.2	4.8	4.7	4.5	3.7	3.1	2.7	2.5	3.1
	In millions of JD									
Tax and Non-tax revenue	1,655	2,096	2,526	3,117	3,579	3,976	4,143	4,259	4,198	4,735
Tax revenue	1,084	1,432	1,767	2,135	2,475	2,760	2,875	2,983	3,051	3,363
Taxes on income and profits	195	227	286	406	485	593	761	619	655	686
Corporations	130	146	196	320	400	468	592	469	512	553
Individuals	36	41	45	43	49	62	85	94	82	66
Salaried employees	22	24	36	32	36	47	68	56	61	66
Other income and profit taxes	7.2	8.1	8.9	10.7	12.1	15.6	17	-	-	-
Taxes on foreign trade	210	267	304	320	315	281	271	281	287	288
General sales tax	600	825	1,026	1,217	1,468	1,669	1,674	1,989	2,027	2,279
Of which SST (excise)			147	172	199	178	334	589	555	652
Other taxes	80	113	152	192	206	203	169	94	82	111
Non-tax revenue	571	664	759	982	1,104	1,216	1,268	1,276	1,147	1,372
of which Fees										
Nominal GDP at current prices (in millions of JD)	7,229	8,091	8,925	10,675	12,131	15,593	16,912	18,762	20,477	22,127

Source: IMF

1.3. What are tax expenditures

Tax expenditures are provisions in the tax code that can take various forms, such as exemptions (amounts excluded from the tax base); allowances (amounts deducted from the benchmark to arrive at the tax base); credits (amounts deducted from tax liability); rate relief (a reduced rate of tax applied to a class of taxpayer or taxable transactions); and tax deferrals (a relief that takes the form of a delay in paying tax). All of these are designed to encourage certain kinds of activities or to aid taxpayers in special circumstances.

Tax expenditures are used as policy tools and they can reflect different types of governmental objectives, including: (i) to promote economic growth—designed to influence decision making and behaviors of agents in the economy; (ii) to improve fairness—promoting equity by reducing tax burdens to certain groups of taxpayers; (iii) programmatic—to implement certain government spending programs by assigning resources to specific groups while avoiding administrative efforts; and (iv) administrative—when costs of collecting the tax to certain groups of taxpayers outweigh the benefits.

Several concerns arise about the effectiveness of tax expenditures in achieving these objectives. First, tax expenditures can represent a substantial amount of forgone revenue. Second, the advantages of tax expenditures can be undermined by the lack of scrutiny in the annual budget process. Lastly, tax expenditures may disproportionately benefit certain groups of taxpayers due to the choice of tax incentives while adding distortions and complexity to the tax system.

Although there might be good reasons for the presence of tax expenditures, it is also very important that tax expenditures in Jordan be subjected to budgetary control in the same way as regular expenditures are. Less rigorous control of tax expenditures relative to other expenditures can create an incentive to enact subsidies and transfers in the form of tax expenditures—regardless of the objective considerations that could justify such as choice—jeopardizing the allocative and distributive functions of the budget.

International best practices call for the integral evaluation of tax expenditures. In fact, many developing countries in the world—with the same or lower levels of development than Jordan—have been evaluating tax expenditures for many years and are obliged to do so by law, including Brazil, Colombia, Chile, Dominican Republic, Mexico, and Peru (CIAT, 2011).

Tax expenditures should therefore be estimated annually and integrated into the budget documentation presented for consideration to the budgetary authorities. It is important to designate which agency (ies) will be responsible for coordinating the work for developing a tax expenditure budget. The OECD recommends that the final responsibility remain with the MOF.

Improving transparency and scrutiny of tax expenditures depends on the GOJ's commitment to estimate and review tax expenditures on a regular basis—analyzing trends, building databases across time, and increasing the number of quantifiable tax expenditures. Initially, the GOJ could prioritize the analysis of key tax expenditures presented in this study, particularly analyzing trends on the revenue forgone due to exemptions and rate differentiation on the sales tax, quantifying tax incentives under the Investment Law, and publishing Council of Ministers' decisions on exemptions granting.

Over time, all major tax expenditures should be quantified and be subject to an integral evaluation on whether it deserves the merit or not. The GOJ is encouraged to periodically evaluate tax expenditures in an integral approach—and not just by quantifying the forgone revenue. An integral evaluation would take into account all relevant dimensions while comparing alternative public policy instruments. Box 1 provides an analytical framework—based on a series of key questions—that can help the GOJ to undertake such integral evaluation. Fundamental questions include:

- Is Government intervention justified?
- Is this tax expenditure the best option to achieve the desired objective?
- What are the costs and benefits?
- What government unit is responsible for monitoring and evaluating this tax expenditure?

Box 1. Proposed Analytical Framework for the Integral Evaluation of Tax Expenditures

I. Rationale

- Is government intervention justified?
- How does the tax expenditure respond to the need for government intervention?

II. Objective

- What is the objective of this policy?
- What are the expected effects (i.e. change in behavior)?
- What are the expected results from this policy?
- Who is the beneficiary (i.e. industry, activity, group of taxpayers)?

III. Evaluation

- What are alternative policy instruments?
- Is the tax expenditure the best option to achieve the desired objective?
- What government agency is responsible for evaluating this tax expenditure?
- What is the fiscal cost to the government from this tax expenditure?
- To what extent does the tax expenditure distort economic efficiency?
- What are the administrative and compliance costs?
- Are there redistribution effects (horizontal and vertical equity)?
- Does the benefit ignite fraud and tax evasion?
- What changes to the design of tax expenditures would allow achieving the policy objectives?

1.4. Defining a reference ("normal" or "benchmark") tax system

How are tax expenditures defined? The first step for identifying and estimating tax expenditures is to define a "normal" or "benchmark" tax structure that applies the relevant tax rates to a broadly defined tax base. This benchmark structure then becomes the fundamental basis of the tax system. The next step is to identify provisions that deviate from this benchmark system, which are then considered tax expenditures.

Defining the benchmark tax system is a crucial element in the analysis of tax expenditures. There is currently no consensus as to what elements should be included in the benchmark system, which makes cross-country comparative analysis difficult. In practice, every country that undertakes an evaluation of tax expenditures defines its own benchmark tax system and estimations (OECD, 2010).

Identifying the benchmark tax system and consequently tax expenditures is not an exact science, nor is it an easy task. In general, most taxes have a series of features that define their basic structure. The following are some habitual practices in OECD countries, which are taken into account in this study:

- A base, on which the tax is levied, such as net income, or a particular class of transaction;
- A taxable unit, such as a person or a corporation;
- A rate structure, to be applied to the base;
- A definition of the geographic limits of tax jurisdiction; and
- Provisions for the administration of the tax.

The tax benchmark then becomes the model of an "ideal" tax, this means establishing the norms of a tax applied to a wide base where no government spending programs are implemented favoring activities and groups. The tax benchmark reflects tax decisions that take into account considerations of the ability to pay principle, and the economic, administrative and compliance costs of the tax. The principal criteria used for identifying the benchmark design is that the benchmark:

- ✓ represents consistent tax treatment of similar activities or classes of taxpayers and neither favors nor disadvantages similarly placed activities or classes of taxpayers; and
- ✓ includes certain tax provisions (i.e. exemptions, deductions, tax credits, and other preferences) to adjust taxable income in order to: (i) comply with the ability-to-pay principle; (ii) enhance the economic and collection efficiency of taxation; and (iii) simplify or make feasible tax administration with respect to a class of taxpayers or type of activity.

This report takes a broad approach and includes all but the most fundamental structural elements of the Jordanian tax system, providing more rather than fewer tax expenditure estimates (to the extent that data availability allows) so that the necessary information is available to those charged with making policy judgments. The reference tax system presented in this study represents a proposal for establishing a benchmark tax system for identifying tax expenditures in Jordan. The following chapter provides a description of such benchmarks for each type of tax, as well as identification of tax expenditures.

2. THE UNIVERSE OF TAX EXPENDITURES IN JORDAN

After defining the tax benchmark and before tax expenditures can be calculated, it is necessary to identify tax expenditures by reviewing the tax laws and any other laws and regulations related to the taxes being evaluated. Jordan does not lack for laws that provide tax incentives. Indeed, it is a challenge to identify all such laws. Apart from the major tax and fee related laws, there are also other laws containing tax exemptions in Jordan—the temporary Income Tax Law of 2009 alone makes reference to certain exemption provisions contained in at least 13 other separate laws. A broad look at the universe of laws providing (tax and non-tax exemptions provisions) allows these to be grouped as follows:

a. *Tax expenditures found in tax laws:*

1. Temporary Income Tax Law of 2009
2. General Sales Tax Law of 2009
3. Customs Law of 1998
4. Buildings and Lands Tax Law of 1998
5. Property Transfer Tax Law
6. Building and Land Tax Law No. 11 of 1954
7. Education Tax Regulation No. 3 of 1988
8. Public Sewerage Law (PSL) No. 18 of 1988

b. *Tax expenditures found in economic and development zone laws:*

9. The Investment Promotion Law of 1995 and its amendments for the year 2000
10. The Aqaba Economic Zone Law of 2002
11. The Development and Free Zones Law of 1994
12. The Jordan Industrial Estates Corporation Law of 1985
13. Incentives under the Qualified Investment Zone Agreement between Israel and Jordan

c. *Exemptions provided under the decisions made by the Council of Ministers*

d. *Tax expenditures found in special laws:*

14. Charity Fund Law No. 8 of 1988
15. Al Hussein Corporation for Cancer Law No. 7 of 1988 and its amendments
16. King Hussein Bin Talal Foundation Law No. 22 of 1999
17. Law of National Commission of Mine Action and Rehabilitation No. 34 of 2000
18. Law of National Council of Family Affairs No. 27 of 2001
19. Law of Jordan River Foundation No. 33 of 2001
20. King Abdulla II Fund for Development No. 37 of 2004
21. Public Debt Exemption Law No. 28 of 2006
22. Hashemite Fund for Al Aqsa Reconstruction No. 15 of 2007
23. Royal Al Albeit Foundation for Islamic Thought No. 32 of 2007
24. Laws on ratification of concession agreements

e. *Tax Expenditures found in Fee related laws and regulations:*

25. Land Registration Fee Law

26. Stamp Duty Law
27. Regulation on Entrance of Museums and Archeological Sites N. 40 of 2002
28. Regulation of Fees on Road Advertisement No. 75 of 2003
29. Regulation on Driving Licensing and Vehicle Registration Fees No. 103 of 2008
30. Regulation on Aviation Fees
31. Regulation on Television Fees

Evaluating and quantifying tax expenditures from all 31 laws and regulations listed is above and beyond the scope of the present study. Nevertheless, this study, evaluates all major tax-related laws as well as the relevant economic and development zones laws, that is laws listed as 1 through 11 above and decisions made by the Council of Ministers. Most importantly, this study focuses on an analysis of the institutional arrangements that take place in the granting of such exemptions. Lastly, this study evaluates and compares tax expenditures that would come about from the new draft Income Tax Law.

Lists of tax expenditures for each type of tax identified from all laws reviewed—after comparing these to the reference tax system—are presented in Annex 1. These tables then become the databank that allows access to relevant information about tax expenditures in Jordan. Each table provides information on the type of tax expenditure, reference to the law, a brief description, and the Government's objective for introducing the tax expenditure. It is highly recommended to maintain the following lists up-to-date, as changes apply, as the GOJ decides to take on the task of periodically analyzing tax expenditures over time.

2.1. Tax Expenditures from the Personal and Corporate Income Tax

The benchmark tax system for the personal income tax (PIT) and corporate income tax (CIT) is defined by considering the tax base, existing tax rates and brackets, the unit of taxation, the time frame of taxation, and the treatment of inflation for calculating income. In addition, the benchmark includes measures that reduce or eliminate double taxation[1], recognize expenses incurred to earn business income, and allow business losses to be claimed over a number of years. Finally, the legal immunity of the Government and the King from taxation is recognized as part of the benchmark tax or normal structure for income taxation.
The following is based on habitual practices in OECD countries:

- *Rate structure:* the progressive rate structure contained in the tax law is considered to form part of the benchmark tax—marginal rates inferior to the maximum do not give rise to tax expenditure.

- *Unit of taxation:* the unit of taxation provided in the law is taken to form part of the benchmark (e.g. individual and family based returns). This means that the lesser (or

[1] Jordan has signed agreements for the prevention of double Taxation with Austria, Bahrain, Belgium, Canada, Cyprus, Denmark, Egypt, France, Iraq, Kuwait, Libya, Malaysia, Oman, Pakistan, Qatar, Romania, Saudi Arabia, Spain, Syria, Tunisia, Turkey, United Arab Emirates, United Kingdom, the United States and Yemen.

greater) tax derived from the family-based tax return, instead of the individual one, does not give rise to a tax expenditure.

- *Taxation period:* the taxation period defined by law is considered to be part of the benchmark.

- *Deductions:* two options are considered for the personal income tax benchmark. The first is one where the deduction/exemption amount is zero—that is, the taxpayer gets taxed on the first dinar earned. An alternative benchmark is also provided in this study for comparisons of foregone revenue where tax expenditures arises only after a basic deduction of expenditure necessary to produce income is taken to be part of the benchmark. This basic deduction is determined to be equal to the national absolute poverty line (minimal requirements for survival including minimum calorific requirement plus essential non-food items) equal to JD 4,392 for a family of five in 2013.[2]

- *Other:* Accounting conventions to determine income, provisions that attempt to facilitate tax administration, provisions aimed at avoiding duplicate taxation, those relating to international taxation, and the deduction of losses from previous periods are all included as part of the benchmark tax.

A broadly based system of the benchmark for income taxes is used in this report. The essential features are found in Table 4, representing the PIT and the CIT benchmark tax.

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[2] USAID's Bureau of Democracy, Human Rights and Labor, Jordan's Country Report on Human Rights Practices 2012.

Table 4. The benchmark tax structure for the PIT and CIT

Personal Income Tax
•The tax unit is the individual (physical person). Family-based tax returns form part of the benchmark. •Taxation is imposed on a calendar year basis. •Residents are taxed on worldwide income, non-residents on income sourced from Jordan. •Current tax rates and income brackets are taken as given (7% up to JD 12,000 and 14% on each JD over). •Taxable net income is gross income reduced by the allowable costs of earning income (set at the national poverty line at JD 4,392). •Losses carried forward for five years. •Income is defined in nominal rather than inflation-adjusted terms. •Structural measures that reduce or eliminate double taxation and improve the fairness of imposing taxes on a calendar-year basis are included. •Exemptions provided for persons subject to diplomatic privileges on a reciprocal basis. •Deduction available for foreign income tax paid or incurred to any foreign country. •Exemption provision for the King, and central and local government institutions in the context of providing services on a non-commercial basis.
Corporate Income Tax
•Tax unit is the legal person. •Taxation is imposed on a calendar year basis. •Resident entities taxed on worldwide income, non-residents on income sourced from Jordan. •Taxable income as calculated on the basis of balance sheet methods. •The current general tax rates are taken as given (14% for all legal persons; but 24% on communications companies, financial and insurance companies, and financial lease business; and 30% on banks). •Depreciation: depreciation based on the economic life, using the straight-line method or declining balance method. •Losses carried forward for five years. •Structural measures that reduce or eliminate double taxation and improve the fairness of imposing taxes on a calendar-year basis are included. •Deduction available for foreign income tax paid or incurred to any foreign country. •Exemption provision for central and local government in the context of providing services of a public nature on a non-commercial basis.

Having established the PIT and CIT benchmark tax allows us to identify tax expenditures. When the tax system deviates from the established benchmark a tax expenditure is said to exist. Tax expenditures for the personal and corporate income tax in this study involve a review of the Income Tax Law of 2009, as well as the Investment Promotion Law of 2000, the Development and Free Zones Law of 1994, the Aqaba Special Economic Zones (ASEZ) Law of 2002 and the Council of Minister's decisions.

While the Investment Promotion Law and the Council of Minister provide income tax exemption provisions, the Income Tax Law of 2009 repealed all income tax exemptions and tax holidays granted through these laws, except for exemptions granted under the ITL itself found in articles 4 and 67. Therefore, no income tax exemptions can be granted through the Investment Promotion Law or through the Council of Minister's decisions since 2010. However, income tax exemptions that were granted before 2010 have been grandfathered and can no longer be renewed. Additionally, there are several other laws in which income tax incentives are granted, including those for the Aqaba Special Economic Zone and the Development Zones as well as 11 other laws listed under article 67 of the ITL.

There are at least 39 provisions identified from the Income Tax Law and the 13 other laws listed under article 67 that deviate from the tax benchmark (see Table A.1), and therefore are considered tax expenditures. The items currently designated as part of tax expenditures in this study are not immutable and the Government properly retains the right to alter their status. The various types of tax expenditures for the PIT and CIT identified are the following:

***Exclusions from Gross Income*:** Gross income is the starting point in the calculation of income tax liability and, in the absence of tax expenditures, would include all income received from all sources. Items of income that are excluded or exempted from gross income typically are not reported by the taxpayer on his or her tax return, and they escape taxation permanently. Provisions stated in the ITL, Article (4) lists earnings that are exempted from taxation.

While many of these provisions for exclusion are generally found in other countries and are part of the benchmark tax, such as exemption for public and official institutions, government, religious and charity institutions, income generated from the blind, handicapped persons, there are others that are not so commonly found in other countries, such as the exemption for the taxation of capital gains and profits from stocks and dividends for individuals. A main income tax exemption under the ITL is the exemption for profits earned from the export of goods. This exemption, however, is due to expire in 2015 per the World Trade Organization (WTO) requirements. Another main exemption found in the ITL, Article (6) involves the tax exemption granted to all income generated from agricultural activity for an individual, and the first JD 75,000 for agricultural business taxation.

Deductions from Gross Income: Certain amounts are subtracted from gross income to arrive at adjusted gross income (AGI). Many of these deducted amounts reflect the costs of producing income (business expenses), and are not properly part of the income tax base. Such deductions are not tax expenditures and are considered to be part of the benchmark tax, such as those listed in Article 5 of the Jordanian ITL. Other deductions which do not reflect business expenses constitute tax expenditures, which permit corresponding amounts of income to escape. A notorious deduction granted in the Income Tax Law is the personal and family related deductions provided in article 9 under the personal income tax. The deduction represents JD 12,000 for the taxpayer, and an additional JD 12,000 for the dependents. The high family allowance of JD 24,000 exempts persons who earn more than seven times the average per capita income, resulting in less than 5 percent of the Jordanian population to be part of the tax net under the personal income tax.

Deductions from Adjusted Gross Income (AGI): Taxable income results from the subtraction of certain deductions and exemptions from AGI. Of these, certain subtracted items represent amounts of income necessary for subsistence; their exclusion is part of the basic structure of the income tax. Other subtracted items represent tax expenditures, which permit corresponding amounts of income to escape taxation permanently. One common example is the deduction for paid donations to public institutions and certain non-profit organizations, as stated in Article 10 of the Income Tax Law.

Additionally, the ITL, article 8 (a) 2 allows for the carry forward of prior years' losses to offset future taxable income. This is standard international practice, however, only when there is a limit on these losses carried forward. The benchmark tax proposed in this study allows for these losses to be carried forward up to five years. Any losses carried forward beyond the fifth year represent a tax expenditure.

Preferential Rates of Taxation: Generally, all income from the same source is taxed at the same rate. When an item of income is taxed at a rate below the rate ordinarily applied to that class of income, a tax expenditure results. The result is equivalent to excluding a portion of the income from taxation. Article 11 of the Jordanian Income Tax Law indicates the rate schedule applicable to individuals and companies based on a progressive tax rate system. The progressive nature of the income tax rate structure is considered to be part of the benchmark tax.

Corporate income tax rates are differentiated by sector. The most favored sectors including mining, hotels, hospitals, transportations, construction and electricity, are taxed at the lowest rate which is 14 percent. Banks and other deposit taking financial firms are taxed at the highest rate of 30 percent. Other sectors including trade, communications, insurance companies (non-banking financial services) are taxed at a rate of 24 percent.

Additionally, the tax treatment of interest income in Jordan is unbalanced. With limited exceptions, interest on deposits held by banks and other financial institutions that is paid to physical and legal persons is subject to withholding at the rate of 5 percent. The withholding is a final tax for physical persons and legal persons other than companies. For companies, interest income is aggregated with other forms of income and is taxed at the applicable corporate tax rate under the current law. The tax withheld at source is credited against the company's tax liability. While withholding as a final tax may reduce tax administration burdens, it results in interest income being treated in a manner that is distinct from other forms of income, and in many cases, subject to preferential tax treatment. Similar to the tax treatment of interest income is the case of a withholding and final tax on income from lottery prizes at 10 percent.

Credits Against Tax: After a taxpayer's basic tax liability has been calculated by applying the tax rates to taxable income, the taxpayer may subtract certain credit amounts from this initial liability in determining the actual amount of taxes that must be paid. It is important to note that, whereas a one dollar exclusion or deduction results in a tax savings of only a few cents (one dollar times the applicable tax rate), a one dollar credit results in a one dollar tax savings which has an even greater impact on the tax expenditure budget.

Investment incentives and Free trade zones: A multi-layered tax incentive structure has evolved in Jordan over the years. The Income Tax Law and the General Sales Tax Law include provisions that provide for investment incentives (or disincentives) through exemptions and differentiated tax rates for different industries (e.g., banks and financial companies) and different activities (e.g., the buying and selling of real estate). Additionally, both tax laws provide the Council of Ministers, upon recommendation from the Minister of Finance, to provide tax preferences not otherwise available under the tax laws. Since January 2010, the Council of Ministers does not grant any new income tax exemptions and is unable to extend income tax exemptions granted before 2010—which have been grandfathered—but no specific sunset clause has been provided that would make all outstanding exemptions end in one sole specific date.

Apart from tax expenditures coming from the Income Tax Law of 2009, there are other laws allowing investment incentives through income tax exemptions including the Development and Free Zones Law No. 2 of 2008 and the Aqaba Zone Economic Zone Authority (AZEZA). According to the latter two laws, profits in free trade zones are exempt from income and social services taxes for periods of twelve years, with the exception of profits generated from storage services that involve goods released to the domestic market. Net profits generated from most export revenues are fully exempt from income tax. The Development Zones include the following: King Hussein Bin Talal; Maan; Irbid; Dead Sea; Jabal Ajloun; and Business Park. According to the Development and Free Zones Law, registered companies operating within the development zones shall enjoy preferential income tax rates at a reduce 5 percent.

2.2. Tax Expenditures from the General Sales Tax and Special Sales Tax

The general sales tax in Jordan is essentially a value-added tax (VAT). The benchmark or normal tax for the General Sales Tax (GST) outlined in this study is a broadly based, multi-stage, value-added tax collected using a tax credit mechanism to deduct the tax paid on inputs from tax due on outputs or supplies. The main structural elements of the multi-stage consumption tax system are taken to be part of the benchmark—tax is applied to the sales of goods and services at all stages of the production chain. Tax credits are allowed to recover the tax paid on inputs and so the tax applies only to the value added. The only tax that is not refunded is the tax collected on sales to final consumers, so that the tax is imposed on final consumption.

The common practice is to consider the generally applied legal rate as part of the benchmark—that is 16 percent in Jordan. Consequently, reduced rates give rise to tax expenditures. However, reduced rates of the GST at 0, 4, and 8 percent do not always lead to revenue forgone if these are used as intermediate input to produce a final product sold to the consumer which is subject to the GST. The benchmark system applies tax only to goods and services consumed in Jordan. Accordingly, the tax applies to imports as well as domestically produced goods and services, while a rate of zero for exports is considered part of the benchmark tax. As with the income tax benchmark, legal immunity from taxation for the King and the Government is recognized as part of the benchmark system for the GST.

The tax base is also reduced through the registration threshold defined by Cabinet Regulations, for which any business with total turnover below the threshold is deemed exempt. Whether or not the threshold constitutes a tax expenditure is debatable and is challenged by the basic policy intention that the cost of collection for businesses below the threshold exceeds any net revenue generation. Businesses below the threshold pay sales tax on their inputs whenever they purchase taxable items from registered businesses but they do not charge customers sales tax on their outputs, which means there is no tax due on the value added.

Tax administrations always try to strike a balance between the administrative cost of collecting taxes on the value added and the revenue generated from those taxes. This is why a registration threshold is set at certain amount of annual taxable turnover. Businesses below the threshold are not liable to registration but they are entitled to register voluntarily if they think this is in their interest. Fully excluding the threshold from the list of tax expenditures can be misleading if these thresholds are set too high. There is considerable variation on the level of the VAT threshold across countries, ranging from a few thousand US dollars to over $200,000. Even within the European Union, where there is a common legal framework governing the VATs of member states, the threshold levels vary from zero to approaching US$100,000. Under the assumption that a high threshold economizes on scarce administrative resources at little cost in revenue foregone, our benchmark tax assumes that the levels already found in the Jordanian law exempt small traders without much large effects on foregone revenue.[3] In this study, the registration threshold is considered to be part of the benchmark tax.

Based on Regulation No. (74) of 2005, enacted by virtue of Article (14) of Sales Tax Law, the following thresholds apply:

- JD 10,000 in relation to manufacturers producing goods subject to the special tax;
- JD 50,000 in relation to persons supplying goods, with the exception of those manufacturers producing goods subject to the Special Tax;
- JD 30,000 in relation to service suppliers;
- JD75,000 in relation to retailers and wholesalers; and

[3] See ITD (2005). In a VAT system a threshold implies that lost revenue lies on the value-added of exempt sales made by those under the threshold, and small traders providing goods and services directly to final consumers.

- In cases more than one business activity is involved, the minimum threshold shall apply.

Commonly, special sales taxes are established in separate legislation from the sales tax law and are commonly referred to as excises. In Jordan, the GST Law, Schedule 1 found in Annex 1, specifies nine categories of commodities as being subject to rates other than the general sales tax rates, and these form the group of goods and services that are subject to a special sales tax (SST). There are other items subjected to special sales tax by Cabinet Regulations but not listed in Schedule 1. In several instances, these rates are specific rather than ad valorem. The SST is subject to the same provision on zero-rated supplies and tax exempt purchases. The essential features representing the GST and SST benchmark tax are found in Table 5 below.

Table 5. The Benchmark tax structure for the GST and SST

General Sales Tax (GST)
•Basic structural features of a broadly based, destination-based, multi-stage tax system •Single rate at 16% (zero rate for exports only) •Tax period: bi-monthly on odd and even basis. •VAT thresholds amounts currently found in the law •Recognition of constitutional immunity of the King •Exemptions related to normal customs treatment of transit trade, free zones, bonded warehousing, temporary importation, change of residence, etc. •Exemption provisions for government and its agencies and non-government organization providing services of a pubic character and on a non-commercial basis (as specified in the law) •Deliveries to persons with diplomatic privileges are fully exempted (zero rated)
Special Sales Tax (SST)
•Destination based, multi-stage stage tax •Tax period: monthly •Timing of payments (as specified in the law) •List of excisable items specified in Schedule 1 of the GST Law and rates specified in Cabinet Regulations •Exemptions for exports and for persons with diplomatic privileges •Exemptions related to normal customs treatment of transit trade, free zones, bonded warehousing, temporary importation, change of residence, etc.

Tax expenditures from the General Sales Tax and Special Sales Tax originate mainly from exemptions and deductions determined by the General Sales Tax Law (GSTL), provisional law No. 29 for the year 2009, the Investment Promotion Law, and bodies exempted by the Council of Ministers decisions. Additionally, the Development and Free Zones Law provides additional exemptions and zero rating for goods and services purchased or imported by the registered establishment to practice its economic activities inside the development or free zones. Goods produced in the development and free zones are subject to custom duties and sales taxes once they are sold (or cross over) in remaining areas in Jordan.

At least 22 provisions are found in the laws that give rise to tax expenditures from the GST and SST (see Annex 1, Table 1.2), these are categorized as follows:

Reduced Rate of Tax: Any GST rate below the 16 percent standard rate is deemed to be a reduced rate. In other words, all items are supposed to be liable to 16 percent tax rate but this is reduced to a lower rate for certain social or economic reasons. The GST law includes 5 schedules. Schedule 1 presents the list of goods subject to the SST. Schedule 2 presents zero rated goods. Schedules 5 and 6 present goods subject to reduced 4 and 8 percent rates, respectively. Zero rate is a zero tax rate rather than an exemption. In both zero rated and tax exempt supplies, vendors do not charge the GST on their sales of goods and services (whether these sales are to other business or to final consumers). However, in case of making zero rated sales, vendors are entitled to claim input tax credits to recover the full amount of GST they paid on inputs used to produce zero-rated products or supplies whereas in case of making tax exempt sales, the tax paid on inputs cannot be claimed. In other words, zero rated sales are tax free or fully exempted while tax exempt sales are partially exempted. Tax expenditures arise from zero-rated items in the final consumption stage; and reduced rated items at the 4 and 8 percent rates. When comparing the schedule of zero rated items in fiscal year 2010 with the schedule effective as of August 2013, the number of zero rated items increased from 6 to 97, respectively. While the list of reduced rated items at 4 percent did not change much in 2013, the GOJ introduced a new list of reduced rated items at 8 percent, further contributing to tax expenditures.

Reductions to the tax base: Under the GST, reductions to the tax base are largely the result of exemptions. Exemptions under the sales tax law apply to particular supplies as found in Schedule 3 of the GST law (e.g. exemptions for categories of basic food like wheat, bread and water) and for particular suppliers as provided in Articles 21 and 22. GST is not applied to the sale of goods and services that are exempt. Because vendors of exempt goods and services are not entitled to claim input tax credits to recover the GST they paid on their inputs as stated above, such exempted items have a lesser impact on forgone revenue than zero rated items have because, in the former case, part of the tax is already paid on inputs and is irrecoverable by the taxpayers. The forgone revenue represents only the tax on the value added. Similarly, exemptions on GST provided by the Investment Promotion Law only give rise to tax expenditures when the exemption takes place in the final stage of production.

Annex 2 provides a list of schedules that further inform tax expenditures originating from the General Sales Tax and the Special Sales Tax for fiscal years 2010 and 2013, including the list of goods subject to the Special Tax (schedule 1), the list of zero-rated goods and services (schedule 2), Tax-exempt goods and services (schedule 3), non-deductible items (schedule 4), the list of goods subject to the reduced general tax rate at 4% (schedule 5), and the list of goods subject to the reduced rate at 8% (schedule 6).

2.3. Tax Expenditures from Custom Duty

The Government of Jordan has a continued commitment to reduce tariff rates in line with its commitments under the WTO and other international bilateral and multilateral agreements. In determining the benchmark tax for custom duty, it can be determined that different rates are part of the normal tax structure depending on the type of product category as provided in the tariff schedule of the Custom Law of 1998. Exemptions from samples, personal gifts, used personal effects and household furniture (with the exception of cars) brought by Jordanians coming for permanent residence in the Kingdom are taken as part of the benchmark tax and do not generate a tax expenditure. Table 6 summarizes the benchmark tax structure for Custom Duty.

Table 6. The Benchmark tax structure for Custom Duty

Custom Duty
•Differentiated duty rates depending on the type of product •Recognition of legal immunity of the King •Exemptions related to normal customs treatment of transit trade, free zones, bonded warehousing, temporary importation, change of residence, etc. •Exemption provisions for government and its agencies and non-government organization providing services of a pubic character and on a non-commercial basis (as specified in the law) •Deliveries to persons with diplomatic privileges are fully exempted (zero rated)

Tax expenditures from custom duty mainly represent revenue forgone from exemptions to importers. These exemptions originate mainly from exemptions provided in the Custom Tariff Law (CTL) while these provisions may also be found in other laws, including the Investment Promotion Law, Cabinet of Minister's decisions, the Development and Free Zones, and the Aqaba Economic Zone Law. There are at least 14 provisions found in these laws that give rise to tax expenditures (See Table 1.3).

Tax expenditures under Custom Duty include the following categories:

Due to Zero Rating: With the objective of promoting investment and enabling industry to be competitive the GOJ zero rates a number of products, including capital asset imports, machinery, equipment, transportations, raw materials, industrial inputs and unfinished articles to process them for exportation. Exemption of exports from customs tariff duties are considered to be part of the benchmark tax structure.

Due to trade agreements: The Foreign Trade Policy and Relations Department at the Ministry of Industry and Trade deals with international multilateral economic and trade agreements (including the World Trade Organization), as well as bilateral trade agreements between Jordan and other countries. Jordan has signed numerous regional and bilateral trade agreements, including trade agreements with 19 Arab countries and 58 non-Arab countries. Additionally, Jordan holds eight free trade agreements (FTA).[4]

Subject to reduced tariffs: There are certain provisions for reduced tariff rates in the Custom Law and in the Investment Promotion Law of 1995. The law allows for 8 different sectors (i.e. Industry, agriculture, hotels, hospitals, maritime transport and railways, leisure and recreational compounds, conventions and exhibition centers, pipeline transportation and distribution services for water, gas and petroleum derivatives) to benefit from exemption of customs duties on imported fixed capital for at least the first three years of doing business. Additionally, any other Sector or subsectors may be also exempted from custom duties based upon the Council of Minister's recommendations.

According to special agreements (Cabinet of Ministers decision and IPL): These exemptions from custom duties mainly originate from export incentives provided under laws other than the Custom Law, as well as development and free trade zones agreements. The Zarqa Free Zone is Jordan's major free zone area. Other areas include the Sahab Industrial Estate Free Zone, Queen Alia International Airport Free Zone, the Gateway Qualifying Industrial Zone, and the Aqaba Special Economic Zone. Goods imported and exported from free trade zones are exempt from import taxes and customs duties, with the exception of goods released to the domestic market. Industrial goods manufactured in free zones enjoy partial customs duties exemption once released to the domestic market, depending on the proportion of the value of local inputs and locally incurred production costs. Registered companies operating in the development zones also enjoy certain benefits, including exemptions from custom duties on materials, equipment, machinery, and spare parts.

2.4. Tax Expenditures from Real Property taxes: Annual Property Tax and Transfer Fee

The normal tax structure of the tax on real property is based on a broad tax base, with limited exemptions and deductions. The base of the annual property tax is the annual rental value of all residential, commercial, and industrial properties and of vacant land. Three separate taxes are imposed on the assessed value of real property: the municipal property tax (10 percent), the sewerage tax (3 percent earmarked for the water authority) and the education tax (2 percent earmarked for the Ministry of Education) found in three separate laws. Any deviation from the 15 percent tax rate is considered a tax expenditure. Exemptions for the King and the Government non-commercial property are considered part of the normal tax structure. Additionally, promotional discounts for early payments and exemptions of the education and sewage tax from vacant land are also considered part of the normal or benchmark tax.

Tax expenditures arising from the annual property tax originate from three different laws. These three laws are related to the annual property taxation—Building and Land Tax Law

[4] These include the Greater Arab Free Trade Area (GAFTA), Jordan - EU Association Agreement, Jordan – U.S. FTA, Jordan - EFTA Free Trade, Agadir Agreement, Jordan - Singapore Free Trade Agreement, Jordan - Canada FTA, and the Jordan - Turkey FTA.

(BLTL) No. 11 of 1954, also known as annual municipal property tax; the Education Tax Regulation (ETR) No. 3 of 1988; and Public Sewerage Law (PSL) No. 18 of 1988—and are imposed on the annual rental value of properties. The last tax on real property, referred to in Jordan as the transfer fee, is a tax on transactions regarding property transfers.

Tax expenditures originating from real property taxes include:

***Exempted properties*:** For the municipal property tax, special exemptions to the "standard" categories, i.e., churches, schools, government properties, etc. as found in the BLT Law, Article 13, are found to be part of the benchmark tax, exempted property outside these categories give rise to tax expenditures. The BLT Law does not share a common exemption list with the Education Tax Regulation and the Public Sewage Law.

Reduced Tax Rate: Vacant land is subject to a separate tax regime. It is assessed according to its market (capital) value, and then "decapitalized" at a rate of 2 percent to obtain an estimate of annual rental value. This estimated rental value is then taxed at a nominal rate of 2 percent. In effect, vacant land is taxed at 0.04 percent of assessed rental value. Additionally, incomplete buildings are subject to the vacant land tax giving rise to a tax expenditure.

Depreciation Deduction: The 20 percent depreciation allowance is an entitlement for all property taxpayers, and the same percent deduction applies no matter the age of the property. Only when construction is pre-1974 does the percentage rise. In effect, the depreciation deduction is less an allowance to correct valuation for age than it is a standard deduction from property tax liability and it can represent a significant amount of foregone revenue.

Discount on tax due: Empty buildings are granted under the law a 50 percent reduction on the tax due. The property needs to be empty for most of the year in order to be entitled to such tax discount.

Real Estate Market Incentives: Due to the sluggish economy and as a way to stimulate the real estate market, the Council of Ministers on May 5, 2009 decided that the property transfer fee would be subject to a sizeable (temporary) rate reduction to 4.5 percent from 10 percent. The Council then decided to extend such reduction on June 20, 2010, and was later further extended through 2011. Moreover, in order to support adequate access to housing for low and middle income families the Government passed a temporary exemption for the year 2010 and was scheduled to expire on March 31, 2011. The exemption applies to Jordanian citizens buying a flat or single housing development within urban areas not to exceed 150 m^2. Under these circumstances, the transfer fee is exempted one time only. These exemptions expired in 2011 and were not extended into 2012 or beyond.

3. ESTIMATING THE SIZE OF TAX EXPENDITURES

3.1. Choosing the right methodology

The specialized literature on tax expenditures distinguishes three methods for estimating the costs of tax expenditures, these are:

- *Foregone Revenue Method*, ex-post quantification of reduction in tax revenue (relative to a benchmark) due to tax expenditures. This method does not take into account taxpayers behavioral changes.
- *Outlay Equivalent Method*, estimates the subsidy or transfer that would leave taxpayers with an income (net of taxes) similar to that which they would obtain from the existence of the tax expenditure. This is like giving a direct subsidy to the target group rather than reducing the tax liability on them.
- *Revenue Gain Method*, measures how much revenue could increase if a particular tax concession were removed. Accurate estimation of this cost would require estimates of the secondary or behavioral effects associated with such a change.

While the revenue gain approach would be most consistent with budget estimates, it also requires substantial information regarding behavioral responses and interactions with the rest of the tax system as well as assumptions regarding the order of tax expenditures. For instance, the removal of tax expenditures would cause taxpayers to change their behavior to minimize the amount of extra tax they would have to pay, subject to the elasticity of demand. Taxpayers may for example rationalize spending on items with increased tax rates or the luxurious items. We might expect more behavioural effects as the number of tax expenditures in a tax system increases.

Ultimately, the choice of the best method depends upon each country and the objective that is being pursued. Practically, all countries that report tax expenditures use the foregone revenue method, as it is the simplest of the three methodologies to estimate, the appropriate one when data is limited and tax expenditures are vast, and the most advisable one to begin with. Most OECD countries report tax expenditures using the foregone revenue approach. Countries that estimate tax expenditures based on the foregone revenue alone include: Australia, Austria, France, Belgium, Canada, Finland, France, Germany, Holland, Ireland, Italy, Portugal, Spain, and the United Kingdom. Only few countries, with comprehensive databases and years of experience in evaluating tax expenditures estimated it with the foregone revenue approach and an additional method such as the equivalent subsidy method, these are: the United States, Argentina and Chile (IDB, 2010). This study uses the revenue forgone approach to calculate tax expenditures and estimate the size of the fiscal sacrifice to the GOJ, which is consistent with the approach used in most OECD countries that report tax expenditures.

3.2. Caution with interpreting estimates

Care should be taken when interpreting the results presented in the study because the estimates of reported tax expenditures are not necessarily reliable indicators of the budgetary impact of eliminating particular tax expenditures, and would not necessarily yield the full amount of revenues shown in the tax expenditures calculations. Furthermore, aggregated estimates of tax expenditures are not reliable indicators of the total value of tax expenditures and should only be taken as broad indicators of trends in the value and composition of tax expenditures over time. [5]

There are various factors that should be taken into account when interpreting the estimates of tax expenditures in this report, including: differences in methodologies; independence (behavioral effects); non-compliance and tax evasion; and (tax) administrative capacity. Each and all of these may be taken into consideration when evaluating estimates by type of tax expenditures and type of tax.

- *Differences in methodologies:* The different methodologies used in measuring tax expenditures can result in different estimates of their value. For similar reasons, comparisons of the level of tax expenditures between countries are difficult. Differences in tax systems, benchmarks, classification systems and coverage of estimates mean that comparisons of the value of tax expenditures between countries are unlikely to be meaningful. Estimates presented do not take into account changes in taxpayer behavior, consequential government actions or impacts on aggregate tax collections through induced changes in economic activity.

- *Independent estimates:* The estimate of the cost of each tax expenditure provision in this study should be evaluated separately, assuming that all other provisions remain unchanged. Adding various tax expenditures and the interaction between various tax expenditures often would provide a biased estimate of the total cost of a particular group of tax expenditure or of all tax expenditures combined. This is particularly the issue with the PIT and progressive tax rates—the simultaneous elimination of more than one personal income tax expenditure would cause an individual to move to a higher tax bracket than what applies when the tax measure exists. To the extent that this occurs, aggregates of the individual estimates may under-represent the "true" cost in forgone revenues, although an attempt is made to account for this change in the calculations. Interactions are also produced in the case of exemptions from VAT—the elimination of exemption A reduces the intermediate exempt purchases, and therefore the transfer of non-deductible VAT for the production of B, and vice versa. The combined tax expenditure will then be inferior to the sum of the individual tax expenditures.

- *Non-compliance and tax evasion:* It is reasonable to consider that a proportion of the foregone revenue will be evaded, if the tax expenditure is eliminated and tax is collected. If estimates of tax compliance for the particular tax exist, then potential revenue from removing the tax expenditures could be estimated using the compliance rate of the respective tax.

- *Tax administration capacity*: Because tax policy and tax administration go hand in hand, eliminating a tax expenditure might not necessarily result in the collection of the level of

[5] For this reason, most OECD countries, such as Austria, Belgium, Canada, Finland, France, Ireland, Italy, the United Kingdom, and the United States, purposely omit the total lines from their results tables (IDB, 2010).

foregone revenue estimated because of non-compliance but also due to limitations in tax administration capacity. This administrative capacity in revenue collection and enforcement become a key aspect if tax expenditures are reduced and tax revenue mobilization is expected as a result of such change.

- *Comprehensiveness of the estimates*: A review of the various laws providing tax relief reveals the existence of at least 80 provisions giving rise to tax expenditures. Annex 1 provides a databank of all provisions in the various laws reviewed in this study that deviate from the benchmark tax and give rise to tax expenditures. Quantifying every tax expenditure identified requires extensive data availability—that often is not available. This study attempts to quantify major tax expenditures from all taxes known to give rise to the largest fiscal sacrifice. As such, the aggregate level of tax expenditures does not contain an exhaustive list of tax expenditure estimates.

- *Tax expenditure aggregates*: The cost of some tax expenditures are not reported because of lack of data. Tax expenditure aggregates in this study are therefore an underestimation of the total benefit provided through tax expenditures. In addition, tax expenditure aggregates are net aggregates, which include the offsetting effect of negative tax expenditures. Trends in aggregates reflect changes in the extent of individual tax expenditures increased access over time, structural changes in the tax system, number of tax expenditures reported (major change in tax expenditure reported from 2010 to 2012 is the elimination of DLS' real estate incentive through the reduced rate on the transfer fee).

3.3. The Cost of tax expenditures in Jordan

In 2011, the USAID-funded Jordan Fiscal Reform II Project undertook a study that evaluated tax expenditures in Jordan based on data from tax year 2010 (USAID, 2011). This new study provides an update of the calculations, and improves upon the estimates from the previous study due to greater data availability, and greater scope of laws being evaluated including the draft ITL.

Calculations presented here estimate tax expenditures affecting the four main categories of taxes in Jordan: the income tax (personal and corporate), the general sales tax and special sales tax, custom duty, and the tax on real property (annual property tax). While the previous section and Annex 1 provide a comprehensive list of tax expenditures arising from the current legislation, only major categories of tax expenditure for each type of tax—that are known to have the greatest impact in terms of foregone revenue—are estimated in this study.

Using data from various sources (including tax returns, customs declarations, DOS' HEIS Survey 2010, Input-Output table of 2006, macroeconomic data, and property tax rolls), tax expenditures in Jordan are estimated to be *at least* JD 1,556 million or 7 percent of GDP in 2012. Tax revenue collections in the same year reached 15.2 percent of GDP, where tax expenditures represent almost half the size of collections. Tax expenditures in year 2010/1 on the aggregate were lower representing JD 1,507 million in volume, but higher as a percentage of GDP, reaching 8.4 percent.

Highlights from this tax expenditure study include:

- Total tax expenditures are estimated to be at least JD 1,556 million in 2012, or around 7 percent of GDP. This has increased from JD 1,507 million in 2010, but a decrease relative to GDP, at 8 percent.
- The largest single tax expenditure for 2012 are for the single and family deduction allowance (JD 455 million), followed by zero rating of domestic sales tax (JD 263 million).
- The largest increase in tax expenditures from 2010 to 2012 belongs to zero rating from domestic sales tax, a double in tax expenditures from this category, mainly due to the proliferation of zero rated items which have eroded the tax base over time (see Figure 1).
- Increases in tax expenditures from custom duty in 2012 is due to larger volumes of goods exempted from the levy due to zero rates, trade agreements and oil derivatives.
- The most significant reduction in tax expenditure in 2012 involves the expiration of the reduced-rate transfer fee—used as a real estate incentive in 2010—which cost the government JD 150 million in forgone revenue.
- Though smaller in magnitude, tax expenditures from municipal taxes amount to JD 48 million, an important quantity relative to municipalities' budgets that depend on municipal tax revenues to deliver basic services at the local level.

The remainder of this section presents short descriptions and calculations on tax expenditure calculations for each type of tax, including data sources, limitations, and calculation formulas.

Table 7. Tax Expenditures in Jordan (2010-2012)

	2012		2010/2011		Draft ITL	
	mill JD	% GDP	mill JD	% GDP	mill JD	Source
TOTAL, ALL TAXES	**1,556**	**7.0%**	**1,507**	**8.0%**	Not Applicable	
Total, Indirect Taxes	**1,043**	**4.7%**	**846**	**4.5%**		
GST Domestic	**342**	**1.5%**	**191**	**1.0%**		
Due to Zero Rating	263	1.2%	132	0.7%		ISTD Tax Returns 2010, 2011; I-O Table 2006
Due to Exemptions	79	0.4%	59	0.3%		ISTD Tax Returns 2010, 2011; I-O Table 2006
GST Imports	**112**	**0.5%**	**127**	**0.7%**		
Due to zero-rating and exemptions	112	0.5%	127	0.7%		Customs Dept. (2010, 2011 returns)
SST Domestic	**0.6**	**0.003%**	**0.2**	**0.001%**		
Due to zero-rating and exemptions	0.6	0.003%	0.2	0.001%		ISTD (SST Tax Returns 2010, 2011)
Custom Duty	**589**	**2.7%**	**528**	**2.8%**		Customs Dept. Annual Report 2011, 2012
(1) Due to Zero Rating	219	1.0%	195	1.0%		
(2) Due to trade agreements	90	0.4%	84	0.4%		
(3) According to special agreements:	40	0.18%	42	0.2%		
Investment Promotion Law	17	0.08%	18	0.10%		
Development Zones/Areas /1	2.5	0.01%	3	0.01%		
(4) Oil Derivatives	239	1.1%	207	1.10%		
Total, Direct Taxes	**513**	**2.3%**	**661**	**3.5%**		
Personal Income Tax	***455***	***2.1%***	***455***	***2.4%***	***756***	
Personal and family deduction	455	2.1%	455	2.4%	756	HIES 2010 & Tax Returns 2011 -- deduction JD 0
Personal and family deduction (alt.)	187	0.5%	187	1.0%	266	HIES 2010 & Tax Returns 2011 -- deduction JD 4392
Corporate Income Tax	***10***	***0.05%***	***8***	***0.04%***	***11***	
Agricultural exemption (company)	0.9	0.00%	0.9	0.005%	1.0	ISTD tax returns 2011
ASEZ	7.8	0.04%	6.8	0.04%	8.4	ASEZ Annual Report 2006--RoR on investments
Development Zones/Areas /1	1.7	0.01%	0.5	0.002%	1.9	DZC -- Extrapolation from tax collections
Real property taxes	***48***	***0.2%***	***198***	***1.1%***	Not Applicable	
GAM (municipal, education, sewage, vacant land, depreciation allowance)	41	0.2%	41	0.2%		GAM 2010, 2012
All other municipalities	6.8	0.0%	6.8	0.04%		MOF 2010
DLS incentive - all municipalitites	-		150	0.80%		DLS Annual Report 2011

/1 Development areas include: King Hussain Bin Talal; Maan; Irbid; Dead Sea; Jabal Ajloun; and Business Park.

GDP nominal in 2010 and 2012 in millions of JD is 18,762 and 22,127, respectively.

* GDP nominal in 2010 and 2012 in millions of JD is 18,762 and 22,127, respectively.

** Total tax expenditures are derived by summing the individual tax expenditure estimates and it excludes estimates that are unquantifiable.

*** The Personal and Family deduction presents quantification a broad based benchmark tax with no deduction and an alternative measure of tax expenditure under a benchmark system that allows for a minimum basic exemption allwance of JD 4,392 (Aboslute poverty level).

DIRECT TAXES

3.4. The Personal and Corporate Income Tax

Estimates of tax expenditures from income tax include all major provisions that are quantifiable based on data availability. Estimates of tax expenditures presented in this section include:

- Personal and family deduction (based on DOS' Household Income and Expenditure Survey 2010)
- Capital gains exemptions from stocks (based on the Amman Stock Exchange statistics)
- Agricultural Exemption on legal entities (ISTD Tax Returns 2011)
- ASEZ and Development Zones preferential income tax rate (ASEZ Annual Report and DZC data, respectively)

1. Personal and family deduction

The personal income tax in Jordan has very low performance in terms of tax collections, resulting from the high levels of exempted income through the JD 12,000 for singles and JD 24,000 for families. The Household Expenditure & Income Survey (HEIS) 2010 published by the Department of Statistics estimates that nearly 95 percent of the population are excluded from the PIT—these are single and family based households earning less than the threshold deductions prescribed in the income tax legislation.

The ISTD does not have records on taxpayers earning less than JD12,000 for singles and JD 24,000 for families. Estimates of tax expenditures from the personal and family deduction, therefore, depart from a combination of estimates of a micro-simulation model based on income reported in the household survey 2010 containing 10,987 household observations for households that earn less than JD 24,000 and from individual tax returns for taxpayers earning more than JD 24,000.

Because income levels reported in household surveys have a tendency to underestimate true income levels, these were compared to household consumption by income strata. Differences between income and consumption levels varied unevenly by income strata—ranging from 1 percent to up to 40 percent. The numbers informed a decision to adjust household income levels for all categories—including salaries and cash components, self-employment income and combined income from the previous two categories—by an average of 10 percent, representing the average difference estimated between income and consumption levels reported across income strata.[6]

[6] Annex 3 contains the details on the income thresholds included in the estimation which were tabulated in detail up to JD 30,000 in order to provide more accuracy on the income composition of households that are currently excluded from the income tax.

Households were categorized by income levels, then by type of income and additionally by family size—single households and family based households with 2 or more members. This differentiation facilitated simulation of the tax legislation on households applying the JD 12,000/JD 24,000 deductions accordingly.

A micro-simulation model using HEIS data for households with income less than JD 24,000 informed estimates of tax expenditures for this group of households. Income data from individual tax returns was used to build a micro-simulation model to estimate tax expenditures from households earning more than JD 24,000. Tax expenditures due to the personal and family deduction are estimated to be JD 455 million, or 2.1 percent of GDP in 2012. When the national absolute poverty level of JD 4,392 is introduced as part of the benchmark tax, this deduction is subtracted from average income for each threshold, resulting in tax expenditures reduced to JD 187 million. While the PIT currently collects JD 130 million, depending on the choice of benchmark tax, the foregone revenue from the deductions represent 2 times and up to 3.5 times the level of PIT collections in 2012.

Using the same methodology to estimate the impact of the new provision of the draft ITL, the proposed deductions at JD 9,000 for singles and JD 18,000 for families is calculated using the HEIS and individual tax return data. Applying the new higher tax rates proposed 10/20/25, the net effect of the lower deductions levels but the higher tax rates result in a rise in the level of tax expenditures from JD 455 million to JD 756 million. If the alternative benchmark deduction of JD 4,392 is incorporated, then the level of tax expenditures under the new ITL is reduced to JD 266 million.

2. Capital Gains Exemption

In Jordan, capital gains incurred inside the Kingdom (other than profits from assets subject to depreciation) are exempt from the income tax. The taxation of capital gains is relatively a complex area—both in concept and in practice—which adds difficulty when estimating tax expenditures from this exemption.

In this study, we estimate tax expenditures from capital gains of corporate stocks using data from the Amman Stock Exchange (ASE) for year 2010 and 2012, in the absence of better data. Using statistics published for the year, the assumption is that a capital gain is realized once a stock has been sold and has been held over a period of time. Some countries differentiate taxation on capital gains according to the holding period—higher tax rate for short term holdings and lower tax rate on long term holdings, usually one year.

Assuming that a capital gains tax would apply on shares held for at least one year, using the value of traded shares in 2010 and 2012 published by the ASE (as a proxy for stocks that were sold during the year), and incorporating the World Bank's financial indicator of 30 percent for Jordan's traded stocks turnover ratio, results in an estimated value of stocks that were held during the year 2010. Furthermore, capital gain is calculated as the difference between the value of traded shares and the estimated book value. The resulting capital gain from traded shares is reduced by costs of transactions. Applying a marginal tax rate of 14 percent to the resulting net gain generates tax expenditure for capital gains from stocks at JD 261 million in 2010, JD 31 million in 2012, and JD 33 million applying the draft ITL provisions to the 2012 data. The significant reduction in tax expenditures from this exemption is largely due to the declining value of stocks during year 2012.

Because of the use of heroic assumptions in calculating tax expenditures from this category, estimates of tax expenditures from capital gains are not included in the table listing tax expenditures. This estimate only represents an illustrative alternative to estimating tax expenditures from this category. Because taxes on capital gains is one of the most difficult taxes to enforce—including in developed countries—eliminating tax expenditure resulting from exempting capital gains is probably not a priority in Jordan.

Table 8. Tax Expenditure from capital gains of corporate stocks, in millions of JD (2010, 2012)

Description	2010	2012
Value of Traded Shares in 2010	6, 690	1,979
Value of Shares held during the year	4,683	671
Price/Book Value	1.67	1.5
Book Value of shares	2,809	447
Capital gain from traded shares	1,874	224
Cost of transactions	12	1.4
Net gain	1,867	222
Marginal Tax Rate	14%	14%
Tax expenditure	261.3	31
As % of GDP	1.3%	0.1%

Source: Author's calculations from ASE key Statistics data

3. Agricultural Income Exemption

The exemption of all income from agriculture for individuals is assumed to be already included in the calculation of the tax expenditure, at least for households with incomes less than JD 24,000 from this sector. The exemption of JD 75,000 for legal entities is calculated based on ISTD records and only for companies reporting such income from agriculture and recorded in their tax returns. The ISTD reports that 192 companies declare agricultural income greater than JD 75,000 and 180 declare net taxable income less than JD 75,000 from agriculture. Simulating the current tax legislation on the sample of legal entities' tax returns reporting agricultural income sources, the resulting tax expenditure from this exemption is estimated to be JD 930 thousand in both 2010 and 2012. Applying the draft ITL provisions on the overall exempted amount of JD 6,61 million, the resulting tax expenditure rises to JD 990 thousand under the draft ITL.

4. *Preferential rates on income taxation of entities in ASEZ and Development Zones*

Income tax exemptions and preferential income tax rates were repealed effective January 1, 2010. Although grandfathered tax incentives might still be effective because these were left to expire on their own course, or because investments were allowed to apply for an extension prior to 2010, there are no records on these approvals and therefore, these cannot be quantified.

The only income tax exemptions currently granted are provided to the ASEZ and Development Zones, which are subject to a reduced rate of 5 percent on taxable income for registered entities operating inside the development zone. Estimating the size of tax expenditures from this reduced rate required some assumptions.

The Development Zones Corporation (DZC) reports the amount of income tax collections from entities operating within the zones. Based on the amount of income collected within the zones—knowing that these collections are based on net income subject to a reduced 5 percent tax rate—extrapolations allow estimating the overall size of net income. Applying the benchmark tax rate of 14 percent tax rate on companies and deducting tax already collected, the estimated amount of tax expenditures is about half million in 2010 and JD 1.7 million in 2012. Applying the higher tax rate under the draft ITL provides an estimate of JD 1.9 million under the proposed law.

Table 9. Income Tax Collections in the Development Zones (2010 – 2012)

In JDs	**2009**	**2010**	**2011**	**2012**
Income Tax Collections	911	252,289	1,094,247	962,881
Net Income	18,220	5,045,780	21,884,940	19,257,620
Tax Due (w/o reduced rate)	2,551	706,409	3,063,892	2,696,067
Tax expenditure	1,640	454,120	1,969,645	1,733,186

Source: Development Zones Corporation.

Estimating tax expenditures from reduced rates on income in the Aqaba Special Economic Zone is based on some basic assumptions. The last time that ASEZ published an annual report was in 2006. The volume of investments for years 2010 and 2012 is extrapolated based on a 5 percent average growth in investments as reported by the DZC in the Development areas and departing from JD 254 million in investments reported in 2006. Net income from these investments is then estimated based on a rate of return of 14.2 percent estimated for Jordan based on the average incremental capital output ratio (ICOR) in years 2008 through 2012.[7] Tax expenditure is estimated at JD 6.8 million in 2010 and JD 7.8 million in 2012. Under the new ITL, the size of tax expenditure is estimated to rise to JD 8.4 million.

[7] ICOR is calculated based on data on total capital formation from 2007 to 2012, based on MOF's SEPD database.

Table 10. Estimating the size of investments and net profits of firms in ASEZ

In JD million	**2006**	**2007**	**2008**	**2009**	**2010**	**2011**	**2012**
Total investments	254.3	273.4	293.9	315.9	339.6	365.1	392.5
Net profit	36.1	38.8	41.7	44.9	48.2	51.8	55.7
Tax expenditure	5.1	5.4	5.8	6.3	6.8	7.3	7.8

Source: ASEZ Annual Report 2006.

3.5. Real Property Taxes: Annual Property Tax and Transfer Fee

Jordan taxes real property in two ways: with an annual property tax on rental values and with a levy on the value of property transfers. Together these two taxes account for less than 3 percent of total central and local government revenues. The base of the property tax is the annual rental value of all residential, commercial, and industrial properties and of vacant land. The annual property tax is a 15 percent tax on the annual rental value enabled in three separate laws that do not share a common exemption list—the municipal property tax (10 percent), the sewerage tax (3 percent earmarked for the water authority) and the education tax (2 percent earmarked for education spending). Vacant land receives preferential treatment taxed at a reduced rate of 2 percent on the municipal tax. Additionally, if the building is not occupied the municipality introduces a 50 percent discount on the tax due for the purpose of the municipal tax. The same tax reduction does not apply for the education and sewage tax on unoccupied property.

The property transfer fee, instead, is a levy on real property transfers at a rate of 10 percent. As part of the Government economic incentive measures, in 2010 an exemption was issued on the real estate transaction fee (tax) for Jordanians buying flats or within housing developments within urban areas not to exceed 150 m^2. Under these circumstances, the transfer fee is exempted one time only. The exemption is an additional tax incentive to the reduced 4.5 percent rate as determined by the Council of Ministers since May 2009 and extended through 2011. According to the DLS' end of year report 2010, the estimated value of exemptions for the year is JD150 million. The total value of exemptions since the exemption was introduced in May 25, amounts to JD177 million.

The estimates of tax expenditures from real property taxation found in this study represent the best attempt to quantify the tax provisions providing tax relief from all the separate laws, using data from the Greater Amman Municipality (GAM), the Ministry of Finance (Property Tax Division), and the Department of Land and Survey (DLS).

Estimating tax expenditures from the annual property tax requires estimating revenue forgone from exempted properties separately for each tax (municipal, education and sewage) due to different exemptions lists. Estimations of tax expenditures under the annual property tax use the following formulas applied to the annual rental value (ARV) of properties under each category of tax expenditure, as follows:

Table 11. Calculating tax expenditures from the annual property tax

Revenue forgone due to:	***Formula:***
Exemptions	= ARV of exempted properties * corresponding tax rate
Reduced rate on vacant land	= (ARV of vacant land * standard 15%) – (tax paid on vacant land)
20 % depreciation allowance	= (0.20 * ARV) * corresponding tax rate

Table 12. Tax Expenditure Estimates: Real Property Taxes (2010)

Description (in JD million)	**Aggregate ARV**	**Tax Expenditure**	**As % of GDP**
GAM			
Municipal tax exempted properties	30.4	3.0	0.02%
Sewage tax exempted properties	30.4	0.9	0.00%
Education tax exempted properties	30.4	1.5	0.01%
Reduced rate on vacant land	0.3	15.2	0.08%
20% depreciation allowance	137.6	20.6	0.11%
Total GAM		**41.3**	**0.21%**
All Other Municipalities			
Municipal tax exempted properties	0.94	0.09	0.0005%
Sewage tax exempted properties	0.22	0.004	0.00002%
Education tax exempted properties	0.01	0.0002	0.000001%
Reduced rate on vacant land	1.35	0.14	0.001%
Empty buildings (50% deduction on tax due)	-	0.13	0.001%
20% depreciation allowance	42.9	6.44	0.03%
Total - All other municipalities		**6.80**	**0.03%**
DLS incentive- all municipalities		**150.00**	**0.77%**
TOTAL - All Real Property Taxes		**198.14**	**1.0%**

Source: GAM, MOF (Property Tax Division), and DLS

The following calculations represent estimates of tax expenditures using data on the annual rental value of exempted properties from the annual property tax, sewage tax and education tax for all municipalities. Additionally, data was provided on the annual rental value of vacant land, the tax collected from empty buildings, and the amount of revenue forgone on the reduced rate and exemptions from the transfer fee as provided by the DLS' Annual Report 2010. The total tax expenditures from real property taxation represent JD 198 million in 2010. While tax expenditures from annual property tax remain the same in 2012, the only difference is that in 2012 the DLS incentive had already expired, reducing tax expenditures in 2012 by JD 150 million.

INDIRECT TAXES

3.6. General Sales Tax and Special Sales Tax

There are two main categories of goods that are subject to the sales tax, these are sales in the domestic market (Domestic GST) and sales tax applied to imported goods which are subject to custom duty and the sales tax (GST on imports). Tax expenditures from the sales tax in Jordan are due to reduced rates (zero rated, 4% and 8% sales) and reductions in the tax base (due to exemptions).[8] Additionally, certain sectors and certain investment projects may also benefit from sales tax relief through decisions granted through the Council of Ministers.

This study benefitted from data from GST and SST returns from the ISTD for tax years 2010 and 2011, custom entries based on ISIC code classifications, National Accounts Statistics, and DOS' input-output table 2006.[9]

Estimating tax expenditures associated with less than full taxation of a particular supply depends on how the value-added for that supply is generated as it passes from one agent to the next en route to the final consumer. Tax expenditure is quantified based on an evaluation of how much of that value-added is not being captured. Additionally, the taxable status of the agents along the production chain also has implications and this is taken into consideration in the estimation. There is a vast array of pathways which a supply could follow, and these are taken into consideration in the estimation of the net impact of reduced rates and exemptions. The following cases are considered:

- For Domestic GST:
  - Domestic supplies to final consumer and exempt enterprises
  - Domestic supplies to taxable enterprises for exempt supplies
- For GST on Imports:
  - Imports by final consumers or exempt enterprises
  - Imports by taxable resellers for final consumers or exempt enterprises

Tax expenditure is calculated based on the net value added.

a. GST on imports

Estimating the import pathway of tax expenditures is based on entry records provided by the Customs Department. Customs entry records for declared values subject to zero rates on GST was cross-referenced with tax registry data and I-O table, producing the volume and value of commodities passing through customs to: final consumers and business in exempt sectors.

[8] The GST and SST chargeable on all taxable sales of goods and services made by a taxable Zero rating of exports is not considered a tax expenditure since it is part of the benchmark tax. Exemption thresholds are part of the baseline tax and are not considered tax expenditures.

[9] While the DOS updates the input-output (I-O) table every four years, an updated I-O table is not yet available as of the writing of this study.

Inputs to exempt production are accounted for in the GST domestic tax expenditure estimations as the exemption is removed and the final product is sold in the domestic market. Determining the business use of products was classified based on ISIC codes cross-referenced with sectors included in the I-O table, as well as classification assumptions developed by JIB study in 2010 on exemptions due to the IPL. This study classifies goods according to use: 1) consumption; 2) business; and 3) dual. Imports for business use are further classified into: 1) assets; 2) construction materials; and 3) inputs and raw materials, using I-O tables, ISTD returns, historical information on the use of goods for other economies, international information about imports business use, and various other information sources (JIB, 2010).

Forgone revenue from GST on imports is JD 127 million in 2010 and 112 in 2011. The decrease in tax expenditures in this category is due to differences in the volume of zero-rated consumption imports in 2010 which was greater than the volume of zero rated consumption imports in 2011.

Table 13. Tax Expenditure from zero rated GST on Imports

In JD million	**2010**	**2011**
Volume of zero-rated consumption imports	794	698
GST on Imports: Foregone Revenue on zero rating and exemption	127	112

Source: Author's calculations based on Customs declarations, I-O table and ISTD returns.

b. Domestic GST

For the imported supply pathway, there is essentially no distinction between the implications of an exempt or zero rated supply. For domestically produced supplies, however, in the case of an exempt supply where the producer is a taxable enterprise, or where the producer would be a taxable enterprise if the particular supply were taxable, there is what could be considered a negative tax expenditure associated with the input tax credits currently being denied (or a reduction in the positive tax expenditure arising by the nature of the exemption). This offset to the tax expenditure pertains to all the domestic production pathways for the supply.

Data from GST tax returns provided by ISTD for tax years 2010 and 2011 and cross-referenced with the I-O table is used to determine the proportion of taxable goods used in the manufacturing process by the primary manufacturing sectors. Foregone revenue is calculated for zero rated GST on final consumption by multiplying the ratio of final consumption by the value of zero-rated domestic supplies and the tax rate. Additionally, foregone GST on exempt final consumption is estimated by multiplying the ratio of final consumption by the value of exempt sales from the tax returns and the tax rate. These amounts are then reduced by the negative tax expenditure associated with the potential loss if input tax credits being denied for an exempt supply X supplied by a taxable enterprise, would have to be refunded when the exemption is removed.

The following table summarizes the volume of sales subject to foregone revenue from zero-rates, exemptions and the negative tax. The net value added then represents the tax expenditure from GST on Domestic sales.

Table 14. Tax expenditure from zero rates and exemptions on domestic GST

In JD million	**2010**	**2011**
Volume of Zero-rated Sales final consumption	822	1,642
Volume of exempt final consumption	1,058	1,328
Foregone GST on zero rated final consumption	132	263
Foregone GST on exempt final consumption	169	213
Un-refunded credits	110	133
Tax expenditure	191	342

Source: Author's calculations based on ISTD tax returns and I-O table

The doubling of tax expenditures from zero rated items on domestic consumption could be attributed to the increased number of zero rated items from 2010 to 2012—from 6 to 97. A recommendation for decreasing the level of foregone revenue is to reduce the number of items in the zero rate schedules—preferably limiting these to exports. Additionally, any items in the zero rated list that require a preferential rate, should be moved to the schedule of exempt goods, thus reducing the size of refunds and minimizing foregone revenue. The GOJ should also consider choosing only one reduced rate schedule, either 4 or 8 percent.

Worth noting is the fact that this study does not estimate the size of tax expenditures due to reduced rated items in the 4 and 8 percent schedules. The ISTD tax returns do not differentiate between standard rate supplies and reduced rate supplies at 4 and 8 percent, combining all of these into one sole line on tax returns. As such, the data from tax returns could not be disaggregated to differentiate between these categories of sales.

3.7. Custom Duty

Tax expenditure with respect to custom duty is revenue foregone from exemptions provided to importers. There are four important categories of tax expenditures under the custom duty in Jordan, including:

- tax expenditure due to zero rating,
- exemptions due to trade agreements, and
- exemptions according to special agreements, which can be further grouped by:
    - Exemptions from Council of Minister's decision
    - Investment Promotion Law
    - Special laws (Development Zones Law)
    - Exemptions to public institutions and entities with diplomatic privileges (part of the benchmark tax)

The tax expenditure from custom duty can be calculated obtaining the value of imports that are not subject to tax due to the various provisions in the law. Tax expenditure is estimated based on Customs Department data on the volume of imports from these various categories listed above and applying a standard tariff rate.

Revenue foregone = c.i.f. value of exempted imports x the tariff rate applicable

Determining a single tariff rate to apply to exempted imports becomes a challenge. Based on Customs data, the weighted average of overall imports (including zero rated and exempted items) to custom duty collections is equal 1.90% in 2012. Removing zero rated and exempted items from this average provides an average tariff rate of 18.20%. However, this rate includes tariff rates on special items such as tobacco, luxury cars, and it might not represent the best option either.

Because different imports entering the country can, and often do, face different tariffs, the choice for estimating tax expenditures in this study is the trade-weighted average tariff rate. The weighted average tariff is the one used by the Heritage Foundation to measure the index of trade freedom in a country. This rate uses weights for each tariff based on the share of imports for each good. It is based on the following equation:

$$Weighted\ average\ tariff\ rate_i = \left(\frac{Tariffmax - Tariff_i}{Tariffmax - Tariffmin}\right) * 100$$

Where Tariff max and Tariff min represent the upper and lower bounds for tariff rates, and $tariff_i$ represents the weighted average tariff rate in country *i.* The Heritage Foundation reports this rate at 5.3 percent in 2013. This same rate is applied to exempted imports in 2011 and 2012.

While data on exemptions from special agreements (i.e. Council of Ministers, DZL, IPL and Public Institutions) was provided by the Customs Department in for each of these categories for year 2012, this is not available for year 2011. Therefore, disaggregated values in 2011 were derived by using the proportion of exempted volumes for each of these categories in 2012. Tax expenditures for 2011 in this category were estimated using this distribution to disaggregate the value of exempted imports from the special agreements. A next version of this study is expected to include the accurate level of these exempted volumes for year 2011.

Table 15. Tax Expenditure Estimates: Custom Duty (2011 - 2012)

	2011		2012	
In JD million	Volume of Imports	Tax Expenditure	Volume of Imports	Tax Expenditure
Due to zero Rating	3,759	195	4,215	219
Due to trade agreements	1,609	84	1,729	90
Oil Derivatives	3,975	207	4,603	239
Exemptions by Special Agreements:				
Exemptions by IPL	349	18	332	17
Exemptions by DZL	50	3	48	2
Exemptions by Council of Ministers	205	11	196	10
Exemptions to Public Institutions (benchmark)	1,194	-	1,136	-
Total		528		589

Source: Author's calculations using data from the Customs Department.

4. THE DRAFT INCOME TAX AND INVESTMENT LAW

4.1. The Draft Income Tax Law (ITL)

A new ITL is currently undergoing a third round of revisions by both the executive and by Parliament. This new law—expected to be approved before the end of 2013 and effective January 1, 2014—would replace the Temporary ITL of 2009. The draft law maintains fundamental design features of the law of 2009, amends a specific number of articles, but still lacks important provisions related to corporate reorganizations (i.e. mergers and acquisitions, group taxation and company liquidations), transfer pricing regulation, and simplified tax measures for small businesses.

Regarding tax expenditures, key differences exist between the draft and existing law. Most notoriously, the draft ITL provides a reduction in the exemptions levels allowed to be deducted from the gross income from JD 12,000 to JD 9,000 for singles and from JD 24,000 to JD 18,000 for families. While this provision could potentially reduce the amount of tax expenditures, the new draft law also raises tax rates from 7/14 percent to a new 10/20/25 rate structure. Such increase in the progressivity of tax rates outweighs the effect of the reduction in the exemption levels on the level of tax expenditures, causing the foregone revenue to rise.

The foregone revenue from the PIT due to the current exemption thresholds found in the Temporary ITL of 2009 are estimated at 1.2% of GDP—this is twice the amount that is currently collected from this tax. While the new draft law reduces the exemption threshold, the new exemption levels are still very high compared to international standards. The new proposed exemption thresholds exempt 95 percent of the potential taxpaying population (the current levels of exemption excludes approximately 98 percent of the potential taxpaying population). While in other countries, a person earning the average income in the country is subject to the PIT, in Jordan a single person earning nearly 3 times (and almost 7 times for families) the average income is still exempted from the tax. In terms of revenue yield, the personal income tax collects very little revenue, 0.6 percent of GDP, which is much lower than the world average at 5.1 percent of GDP in 2012 (USAID's Collecting taxes 2012-13).

If the exemption levels are chosen based on equity grounds, then it is worth noting that an evaluation of the incidence of the personal income tax shows that the tax is almost exclusively concentrated in the highest decile (average income of JD 25,000), with no tax burden from this tax on all remaining lower deciles (USAID, 2013). The recent tax incidence study of the Jordanian tax system also informs that direct taxes in Jordan—including the PIT—provide progressivity to the system. While a progressive PIT is vital in Jordan to ensure fairness of the system, the high exemption jeopardizes achieving such fairness—that is a family with annual earnings of JD 1,000 or JD 24,000 both are not subject to the tax. Because there is urgent need to mobilize greater tax revenue and because the progressivity of the PIT is currently highly concentrated in the top decile, the Government of Jordan should therefore consider spreading the distribution of taxes into lower deciles by further lowering the exemption thresholds.

Taking into consideration equity and administrative feasibility, the GOJ should consider lowering the exemption allowance somewhere close to the country's absolute poverty line—

minimal requirements for survival including minimum calorific requirement plus essential non-food items)—currently at JD 4,392 for a family of five. This might be set at JD 5,000 for singles and an additional JD 5,000 for families. This will ensure the broadening of the tax base, while still supporting the GOJ's equity objectives excluding the most vulnerable population.

A micro-simulation model of the PIT based on data from the DOS' household expenditure and income survey (2010) estimates that the new exemption thresholds (JD 9,000/JD 18,000) would raise PIT collections by approximately 60 percent. Further lowering these exemption thresholds then becomes very promising for mobilizing greater tax revenues. The replacement of the proposed five different PIT progressive rates (5/10/15/20/25) in an earlier version of IT draft law to three rates in the current draft (10/20/25) is a step in the right direction. However, the effectiveness of rate progressivity is again severely undercut by the high level of exemptions and other exemptions that benefit those with high incomes (e.g. exemptions on income from capital gains). This is another reason why the exemption thresholds should be reduced.

Other tax expenditures from Article 4 and 67 still remain in the new ITL. These include full exemptions to agricultural income for individuals, exemption on capital gains, and provision for income tax exemptions from multiple other laws (Article 78 in the new ITL, previously Article 67). These laws include the Aqaba Special Economic Zone Law and the Developmental Zones and Free Zones Law. While there are plans to repeal the latter two laws through a new Investment Law (currently undergoing revisions), it is important to ensure that any new laws are harmonized with the new ITL—whichever is adopted first. The Government should consider eliminating the long list of laws providing income tax exemptions and merely limit these to the exemptions provided in article 4.

New amendments include exemptions of dividends from primary mining industry; increase in the exemptions on agricultural income for legal entities from JD 75,000 to JD 100,000; and a reduction in the exemption of pension income from JD 4,000 to JD 3,000. Estimates of foregone revenue from the PIT exemption, however, continue to represent the third largest amount in terms of foregone revenue to the government. Additionally, income tax exemptions in the development and free zones still remain.

Additionally, certain withholdings serve as final taxes such as those applied on income from interest, and income from lottery prizes are set at rates lower than what they would be taxed under the general income tax thresholds. This gives rise to tax expenditures due to the preferential rates relative to the rest of income. These withholding rates should be raised to be more on par with the general tax rate schedule.

The following table summarizes key differences between the new ITL and the existing law of 2009 in terms of tax expenditure provisions.

Table 16. Key reforms affecting tax expenditures on income tax/[1]

Temporary ITL of 2009	Draft ITL
Deduction Allowance: JD 12,000 for singles; JD 24,000 for families	Deduction Allowance: JD 9,000 for singles; JD 18,000 for families
Tax rates: 7% for first JD 12,000; 14% thereafter	Tax rates/[2]: 10% for first JD 10,000; 20% next JD 10,000; 25% thereafter
JD 75,000 exemption on agricultural income for legal entities	JD 100,000 exemption on agricultural for legal entities
JD 4,000 exemption on pension income	JD 3,5000 exemption on pension income

/1This is not an exhaustive list of all tax expenditures found in the new draft law. All other tax expenditures found in the temporary ITL of 2009 remain in the draft ITL (For a list see Annex 1, Table 1.1).

/2 The new tax rates, if applied, would become part of the benchmark tax. They are included in this table mainly because they affect the level of tax expenditures by increasing the size of forgone revenue due to the higher opportunity cost.

Options and Recommendations

- Lower the deduction allowance further. On equity grounds, a deduction of JD 5,000 for singles and up to JD 10,000 for families would ensure that the poor and vulnerable are exempt, while improving the distribution of the tax burden to lower deciles.
- Eliminate the agricultural exemption for individuals.
- Eliminate (or lower) the agricultural exemption for legal entities, but do not raise it.
- Raise withholding rates which serve as final tax on income from lottery prizes, royalties, and interest.
- Limit tax exemptions to those listed in Article 4 and the new Investment Law, and eliminate the list of 11 other laws providing tax relief.

4.2. The new Investment Law (IL)

Jordan’s Investment Promotion Law aims to attract and encourage both local and foreign investment in Jordan and reinforce confidence in Jordan’s investment environment. The current investment incentive scheme in Jordan is multi-channeled, fragmented, and may significantly distort economic activity by providing tax incentives to specific sector and subsectors set out in the law, but also includes discretionary authority by the Council of Ministers to grant other tax relief from indirect taxes without a clear set of rules or implementation guidelines.[10]

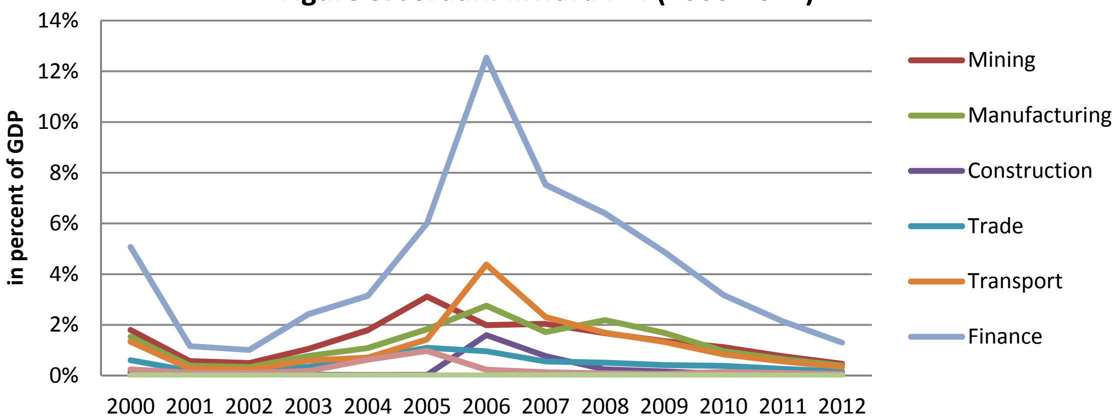
Empirical evidence and conventional wisdom among tax advisors suggest that tax incentives often erode the tax base without any substantial effects on the level of investment (Shah, 1995; OECD, 1995; Holland and Vann, 1998; and Easson and Zolt, 2003). An evaluation of investment incentives in Jordan over the years have concluded that these investment

[10] For more information on the discretionary power of the Council of Ministers, see the next chapter.

incentives have generated significant distortions to the economy which have not necessarily attracted long-term capital investments (Chen 2002; OECD 2007).

Evidence shows that Jordan's level of inward foreign direct investment rose during the first half of the 2000s for most sectors, as shown in Figure 2. However, inward FDI has been declining for all sectors since 2006—despite the investment incentives in place. The finance sector in Jordan—though subject to relatively higher tax rates and fewer tax incentives than the other sectors—has experienced the largest levels and growth rates in inward FDI. This supports the empirical evidence that factors other than tax incentives (i.e. physical, financial, legal and institutional infrastructure) are more important drivers for attracting investments.

Figure 5. Jordan: Inward FDI (2000-2012)



Source: Jordan Investment Board

Changes to the fragmented investment incentives in Jordan through the new draft Investment Law (IL) are very promising. While the law is currently undergoing revisions after two rounds of reviews, the new IL introduces various improvements. The new IL:

- *Consolidates several existing laws providing tax incentives:* As reviewed in this study, there are at least 14 different laws providing tax incentives in Jordan. The new IL, according to Article (57), consolidates at least 4 of the existing laws (i.e. the Temporary Investment Promotion Law and its amendments; the Development and Free Zones Law No. (2) and its amendments; Economic Projects Development Law No. (33) of 2008; and the Industry and Commerce Law No. (18) of 1998).
- *New incentives are not introduced relative to the existing IPL:* The new law does not provide new incentives relative to the existing investment law, instead it streamlines existing incentives and procedures.
- *Eliminates discrimination across sector*: While the discretionary power of the Council of Ministers still persist, the new IL eliminates discrimination between investments qualifying for incentives—changing the emphasis from sector specific incentives to a rule-based approach for exempting import tariffs and GST on intermediate inputs as specified, for goods and services to be specified by the Council of Ministers.

The following table summarizes key differences between the new existing Investment Promotion Law and the new Investment Law.

Table 17. Key reforms affecting tax expenditures under the New Investment Law

Existing Investment Promotion Law	**New Draft Investment Law**
Multiplicity of laws providing incentives	Consolidates at least 4 laws into 1
Exemptions limited to 8 economic sectors	Exemptions granted for all major productive activities. Comprehensive table of goods and services to be issues by the Council of Ministers.
Investment projects' fixed assets exempted from custom duty	Fixed assets and inputs of production exempted from import duty
Exemptions approved by investment incentives committee	Exemptions become rules-based and are granted automatically
Excludes SMEs from investment incentives	Extends incentives to SMEs based on Council of Ministers approval

Options and Recommendations

- Ensure that the new IL adopted is broad based, preserving consistent incentives across sectors.
- Ensure that provision giving power to the Council of Ministers is based on clear rules and objectives.
- Ensure that the new IL does not violate provisions in the ITL.

5. THE COUNCIL OF MINISTERS' DECISIONS

Discretionary provision of tax incentives, though politically attractive for promoting investment, can impose significant economic and social costs that do not merit their existence. Besides the forgone revenue to the government from tax incentives, such decisions may create administrative and compliance burdens on the beneficiaries, loss of efficiency through distortions to the economic environment, lack of transparency and risk of abuse. Different studies again and again have not been able to empirically justify the existence of investment incentives in Jordan (Chen 2002; OECD 2007). Additionally, the discretionary power of the Council of Ministers—granting tax incentives to specific sectors and investments—does not currently meet international standards to ensure a proper rule-based approach to targeting, implementing and evaluating incentives granted.

In Jordan, tax incentives and exemptions are provided through multiple channels as stipulated in multiple laws. However, various legislation also provides the Council of Ministers with discretionary power to grant additional tax relief on a discretionary basis, including:

- The Investment Promotion Law, in Article (3) a, 6, empowers the Council of Ministers to decide on any other sector or subsectors that may benefit from investment incentives provided in the law. Additionally, Article (3) b, provides the Council of Ministers the power to offer any project established within the sectors mentioned in the law incentives or guarantees or other privileges for a number (beyond those provided in the law) of years that the Council sees fit.[11]
- The Public Fund Exemption Law, in Article (3) b, allows for the Council to exempt any amounts exceeding JD 2,500 and without setting specific eligibility criteria, implementation or compliance rules.[12]
- The Council of Minister's decides upon the schedules of zero rated, reduced rate and exempted items that accompany the sales tax legislation.

[11] According to the law the Council is to review the nature of the project's activity, its geographic location, its contribution to increasing exports, creating jobs, exploiting national natural resources and accelerating economic development, in special cases and due to considerations determined by the Council of Ministers, and to be of national interest.

[12] See Public Exemptions Funds Procedures following this link: http://www.mof.gov.jo/en-us/ministry%E2%80%99seservicesandprocedures/procedures/publicfinance/exemptionfrompublicfunds.aspx

Box 2. The Council of Ministers' institutional features

The Council of Ministers' members include officials from the various ministries and Departments, including the Ministry of Finance, the Customs Department, the Income and Sales Tax Department, Ministry of Industry, Ministry of Planning, and others.

The Council meets on a weekly basis and evaluates proposals for exemptions to specific taxes. Proposals for exemptions never apply across all taxes. A positive decision derives from majority voting. In case majority voting cannot be reached, the decision is passed on to the Ministry of Finance, for further evaluation.

Source: Ministry of Finance.

According to Jordan Investment Board, exemptions granted under the Council of Ministers' decisions under the IPL has been decreasing since 2008, nonetheless the rate of approval has been increasing. According to guidelines, all applications for exemptions should be presented to the Council of Ministers and they are evaluated according to an established framework. The most important criteria for evaluating and granting an exemption are the applicant's ability to provide evidence on how the investment will impact Jordan's economy, with particular attention on the geographic location, contribution to increasing exports, and job creation.

However, limited records provided on the Council of Ministers' decisions merely show a list of investment projects that applied and were granted the exemptions, and the size of the investments. There is no mechanism in place to quantify the cost of tax incentives granted to each project approved, nor is there a mechanism in place for the monitoring and evaluation of the investments' impact on exports, job creation and development. The lists of investments approved for exemptions ranges from small to large investments spanning a wide range of economic activities.

Table 18. Volume of investments applying for incentives under the IPL (1996-2011)

Period	Amount (JD mill)	Investments Granted Exemptions	Approval Rate (%)
1996-2000	9,333		
2001-2003	1,444		
2004	418		
2005	750	281	37
2006	1,834	303	17
2007	2,221	438	20
2008	2,665	614	23
2009	1,821	264	14
2010	1,661	470	28
2011	1,022	426	42

Source: Jordan Investment Board

Shortcomings of the Current System for Granting Exemptions

- High degree of discretion with no clear guidelines on evaluation, implementation and monitoring and evaluation.
- There is no dedicated body that can periodically evaluate the impact of investments that have been granted exemptions on job creation, economic growth, and other variables of interest.
- Extension in the duration of exemptions may be granted (without performing a detailed evaluation of the impact of the investment).
- List of approved projects is not published.

Recent decisions to eliminate income tax exemptions are a step in the right direction. Based on a decision made by the Council of Ministers No. 6097 dated September 15, 2009, and effective January 1, 2010, income tax exemptions are no longer granted. This regulation also sets limits for any new exemptions from taxes and fees, so that they will be conditioned by certain amount or duration, and requires approvals to be justified with set time limitations. While income tax exemptions are no longer granted by the Council of Ministers, there is still no process in place to adhere to the requirements and justifications for granting tax relief from custom duties and sales tax or to evaluate the desired impact of approved incentives to specific investments.

The costs and benefits of tax incentives are not easy to evaluate and are difficult to quantify and estimate. International best practices calls for general principles that should apply to the design of investment programs, including: (1) limiting the size of tax expenditures arising from the incentive program; (2) limiting the duration of tax incentive regimes including specific “sunset” provisions; (3) requiring information reporting by beneficiaries; (4) specify a government agency responsible for monitoring and enforcing qualification; and (5) periodic evaluation of the incentive program.

Options and Recommendations

1. Eradicate the discretionary power of the Council of Ministers to approve tax incentives above and beyond provisions already set out in the Investment Promotion Law.
2. Create an administrative process for automatic granting of tax relief to beneficiaries based on diplomatic privileges and (non-commercial) activities of non-profit organizations. These should not require going through the Council of Ministers.
3. If the discretionary power of the Council of Ministers is not abolished, then create a rule-based approach in the granting of exemptions. A rule-based approach for the granting of exemptions through the Council of Ministers would limit the amount of discretion accorded to government officials, improve transparency, and enhance effectiveness on achieving the desired impact. The qualifying conditions for incentives should therefore be set out clearly and in detail so that potential investors may determine whether they qualify, and what to do to qualify, and how to comply with the incentive program. The following provides a rule-based framework for incentive granting:

    a. Clearly establish the objectives of the tax incentive program.
    b. Limit the size of tax expenditures: Set a maximum annual incentive allowance, requiring budgetary review and approval.
        – Set clear policies and procedures:

- Minimum size investment and maximum allowance of incentives per investment

- Establish specific criteria (i.e. long term viability; promote employment and production; not concurrently benefiting from other schemes)

- Set clear Sunset Clause/Commencement Rules (i.e. first year of production, first year of revenue, first year of profit, first year of cumulative profit)

c. Monitor continuing compliance:

   – Assign a dedicated group that will ensure compliance

   – Reporting requirement and factual verification: Summary statistics relating to capital investment that occurred in the applicable year; individual employee data to support contractual employment and wage thresholds; detailed report of eligible investment costs by invoice.

d. Require a specific time to assess the success or failure of the incentive program.
e. Publish requirements for approved awards.

Box 3. South African Legislation on Tax Incentives

The South African example is a model for a rule-based incentive program. Their "Strategic Investment Program" is part of a larger package of tax incentives with the objective to encourage investment. Key features include:

- A tax expenditure budget of 3 billion rand in the form of tax allowances over a period of four years.
- Specification of the qualifying industry sectors that includes all manufacturing activities except tobacco and tobacco related products; computer and computer related activities; and research and development activities;
- Specifications on qualifying requirements that includes an investment in the new qualifying assets equal or exceeding 50 million rand; increase production and employment within South Africa; no substantial displacement of jobs within South Africa; demonstrate long-term commercial viability; and the project does not currently benefit from other government incentive programs;
- Clear criteria for evaluating and scoring investment projects, a process for application and approval, and publication requirements for approved awards to ensure transparency for awarding tax incentives.

Source: Easson and Zolt (2003)

6. RECOMMENDATIONS FOR STREAMLINING TAX EXPENDITURES

The estimated cost of tax expenditures presented in this study reveals the loopholes and flaws in the current Jordanian tax structure. Using data from various sources including tax returns, customs declarations, DOS' HEIS Survey 2010, Input-Output table of 2006, macroeconomic data, and property tax rolls, tax expenditures from all major taxes in Jordan are estimated to be *at least* JD 1,556 million or 7 percent of GDP in 2012. Tax revenue collections in the same year reached 15.2 percent of GDP, where tax expenditures represent almost half the size of collections. Tax expenditures in year 2010/1 were JD 1,507 million, or 8 percent of GDP.

Low compliance, high levels of tax evasion, weaknesses in the tax administration and the cost of tax expenditures all contribute to poor tax revenue performance in Jordan posing a threat to the consolidation of Jordan's public finances. The largest single tax expenditure arises from the personal and family deduction allowance of the personal income tax accounting for JD 455 million in tax expenditures, or 2.1 percent of GDP in 2012. The second largest single tax expenditures is due to zero rating of the domestic sales tax accounting for JD 263 million, or 1.2 percent of GDP. The proliferation of zero rate items, in particular, has contributed to the doubling in the size of foregone revenue from this tax expenditure in just a couple of years. Customs exemptions due to zero rating, trade agreements and (to a lower extent) exemptions granted through special agreements, such as the IPL and decisions through the Council of Ministers also represent a significant size of forgone revenue, estimated at JD 589 million all together. The sales tax in Jordan is broad-based and highly productive, and safeguarding its contribution to the resources available to the government requires safeguarding that the tax base is not eroded due to expansion of items in the schedules subject to reduced rates and exemptions.

An opportunity for improving fairness in the tax system—while seeking to mobilize greater tax revenues—arises from lowering the deduction allowance of the personal income tax to a level around JD 5,000 (a level above the absolute national poverty level) while eliminating exempted sources of income. This provision would not only expand the tax base and the efficiency of the tax system, but would also smooth out the highly concentrated distribution of tax burdens from the top decile into lower deciles, as is standard in most other countries in the world.

An estimate of tax expenditures based on provisions presented in the draft ITL give rise to greater levels of foregone revenue due to the offsetting effect that higher proposed tax rates have on the reduction of deduction allowances for both singles and family-based taxpaying households. Effectiveness of rate progressivity presented in the draft ITL is severely undercut by the remaining high level of exemptions—yet another reason why the exemption thresholds should be reduced.

The proposed higher and more progressive tax rates under the draft ITL—though they give rise to higher levels of forgone revenue—they are not particularly undesirable, as they bring personal income taxation in Jordan closer to international standards while contributing to mobilizing greater tax revenue. This phenomenon in estimating tax expenditures emphasizes the sensitive nature in drawing normative conclusions from a rise or fall of tax expenditures. Because the new exemption thresholds continue to exempt the majority of the population (approximately 90 percent), the GOJ should critically consider the new Income Tax Law as an opportunity to further reduce these thresholds.

The cost of some tax expenditures are not reported owing to lack of data. Creating a comprehensive tax expenditure budget would require improving reporting of data and management. For instance, tax expenditures from reduced 4 and 8 percent tax on sales could not be quantified since tax returns do not differentiate between standard rate sales and reduced rate sales. Additionally, there are no detailed records about volume of sales benefitting from Council of Ministers' exemptions to sales tax, that is, these cannot be differentiated from other exemptions from tax records. As the GOJ improves the availability and quality of data reporting the number of quantifiable tax expenditures can increase over time.

Tax expenditures, like direct expenditures, affect the GOJ's budget. Improving transparency and scrutiny of tax expenditures depends on the GOJ's commitment to estimate and review tax expenditures on a regular basis—analyzing trends, building databases across time, and increasing the number of quantifiable tax expenditures. Initially, the GOJ could prioritize the analysis of key tax expenditures presented in this study, particularly analyzing trends on the revenue forgone due to exemptions and rate differentiation on the sales tax, and tax incentives under the Investment Law.

Anticipating ongoing policy discussions on tax reforms leading to a more efficient, equitable and productive tax system, policy options and recommendations to streamline many of the tax expenditures that generate significant fiscal sacrifice to the GOJ are included in Table 2. Recommendations to improve transparency and fiscal accountability in the budget process as it relates to tax expenditures are also included.

Reducing or eliminating some of these tax concessions would negatively impact specific interest groups or segments of the population and from a political perspective these may not be easy to implement. From an economic perspective, the measures recommended would have a positive impact on the general welfare of Jordanians, while improving transparency, efficiency and fairness in the tax system.

A summary of specific policy options and recommendations is found in Table 2 in the Executive Summary.

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ANNEX 1. DATABANK OF TAX EXPENDITURES FROM TAX LAWS

Table 1.1 Tax Expenditures on Income Taxes:

	Legal Basis	Description	Purpose
	Exemptions from Income Tax		
	ITL, Art. 4 (a)(1)	Exemption of King's Allocations	To relief monarchy from tax burden (part of the benchmark)
	ITL, Art. 4 (a)(2)	Income of public and official institutions and municipalities (excluding their income from rent and key money)	To avoid tax burden on public entities (part of the benchmark)
	ITL, Art. 4 (a)(3)	Income of unions, professional commissions, cooperation societies, and other societies legally registered and licensed from non-profit activities	To promote socio-economic values (part of the benchmark, except commercial activities)
	ITL, Art. 4 (a)(4)	Exempted from income tax are any religious, charity, cultural, education, sports, or health institutions which serve the public, they are not-for-profit, and/or receive income from charity Waqf (public endowment), and the income from the Orphans Development Fund Investment.	To promote social (religious, cultural, educational, sports and health) values—(part of the benchmark, except commercial activities)
1	ITL, Art. 4 (a)(5)	Income of exempted registered companies according to the Companies' Law, which is incurred from activities undertaken outside the Kingdom, except income derived from income sources subject to tax according to the provision of the income tax law.	Decision by tax authority. International tax treaty?
2	ITL, Art. 4 (a)(6)	Profits from stocks and dividends distributed by a resident to another resident, except profits of mutual investment funds of banks and financial companies.	To encourage investment
3	ITL, Art. 4 (a)(7)	Capital gains incurred inside the Kingdom, other than profits from assets subject to depreciation.	To encourage investment
4	ITL, Art. 4 (a)(8)	Income derived from inside the Kingdom from trading in dividends and stocks, bonds, equity loan, treasury bonds, mutual investment funds, currencies, commodities, in addition to futures and options contracts related to any of them; except those incurred by banks, financial companies, financial intermediation and insurance companies and legal persons who undertake financial lease activities.	To encourage investment?
5	ITL, Art. 4 (a)(9)	Income from trading immovable properties located in the Kingdom, except: (1) Income incurred from such trade by a legal person, and (2) Income incurred from building and selling real estate.	To encourage investment
	ITL, Art. 4 (a)(10)	Income from non-Jordanian resident investors from sources originating outside the Kingdom for investing on capital, returns, profits, and investment liquidation return or selling his project, shares after taking them out of the Kingdom according to the effective Investment Law or any law that will replace it.	To encourage investment (part of the benchmark, non-residents income sourced outside of Jordan)

6	ITL, Art. 4 (a)(11)	Compensation paid by insurance entities, other than what is paid as a reimbursement for the loss of income from business activity or employment.	Equity
	ITL, Art. 4 (a)(12)	Income from employment paid to members of non-Jordanian diplomatic or consular bodies representing other countries in the Kingdom subject to the reciprocal treatment principle	International tax treaty (part of the benchmark)
7	ITL, Art. 4 (a)(13)	Income from distribution of estates or will for the inheritors or the devisees according to the provisions of the effective legislations.	Avoid double taxation
8	ITL, Art. 4 (a)(14)	End of service rewards for the employees according to the effective legislations or any group arrangements concluded according to the approval of the Minister as follows:	Social values
		A- 100% of any amount accrued before the effective date of this law	
		B-50% of any amount accrued after the effective date of this law	
9	ITL, Art. 4 (a)(15)	The first JD400 of monthly pension salary paid by a resident person	Equity
10	ITL, Art. 4 (a)(16)	Income generated by the blind or any person totally incapable of working	Equity
	Other exemptions from employment income		
11	ITL, Art. 4 (b)(1)	Additional allocations and bonuses paid from employment abroad of Jordanian diplomats, consular members and government public and official institution employees	Administrative decision
	ITL, Art. 4 (b)(2)	Meals provided for the employees at the work site	Administrative decision (part of the benchmark)
	ITL, Art. 4 (b)(3)	Accommodations services provided for employees for work purposes	Administrative decision (part of the benchmark)
	ITL, Art. 4 (b)(4)	Equipment and uniforms, necessary for carrying out work activities provided to the employee by the employer	Administrative decision (part of the benchmark)
12	ITL, Art. 4 (d)	Income from public or private pension funds and savings funds and any other funds approved by the Minister shall not be subject to tax if this income is derived from the employees and employers contributions.	To promote savings
13	ITL, Art. 4 (e)	Certain types of local origin goods and services' exports outside the Kingdom may be totally or partially exempted from tax, provided that the basis of the exemption and the types of goods and services included in this exemption and the rate and period of the exemption shall be determined according to a regulation issued for this purpose	To promote export
	Exemptions on Agricultural Income		
14	ITL, Art. 6 (a)	Income generated from agricultural activity will not be taxable if generated inside the Kingdom for a physical person	Incentive for agricultural activity
15	ITL, Art. 6 (b)	The first JD 75,000 are not taxable if generated inside the Kingdom for a legal person	Incentive for agricultural activity
	Deductions		
16	ITL, Art. 8 (a) 2	If a loss reaches an amount that cannot be fully deducted then its balance shall be carried forward to the next following tax period and then successive periods after the tax period in which it was incurred.	Benchmark only up to five years. This provision provides for loss carry forward without a limit.

17	ITL, Art. 9 (a)	Deduction from the gross income of a physical resident person include: 1. JD 12,000 for the taxpayer; 2. JD 12,000 for the dependents regardless of their number	Equity[13]? Administrative?
18	ITL, Art. 9 (b)	If joint filing then exemption for a single family shall not exceed JD 24,000	Equity and Administrative
19	ITL, Art. 9 (c)	Jordanian non-residents can benefit from the exemption of dependents residing in Jordan if he is responsible for their support	Equity and Administrative
20	ITL, Art. 9 (d)	Non-Jordanian residents can use dependent deduction if dependent is a resident in the Kingdom	Equity and Administrative
21	ITL, Art. 10 (a)	Person may deduct any amount paid during the tax period as donation to any government departments, public or official institutions or municipalities from the gross income in the period in which the payment occurred.	Promotion of social values
22	ITL, Art. 10 (b)	Person may deduct the subscriptions and donations paid for religious, charitable, humanitarian. Scientific, environmental, cultural, sport, professional purposes. Shall not exceed 25% of the taxable income after deducting what is provided for in 10(a) of this article.	Promotion of social values
	Preferential Rates of Taxation		
23	ITL, Art. 12 (a) 2	5% of income from interest on deposits and commissions, and profits of deposits participating in bank and financial company investments, which do not take interest, and paid by banks and financial companies in the Kingdom to any person, provided that these withheld amounts shall be considered a final tax for the non-resident juristic person and the natural person.	Administrative
24	ITL, Art. 12 (a) 3	Income from investment, royalties, and any other non-exempted income paid by a resident directly or indirectly to a non-resident person at the rate of 7% and the withheld amount shall be considered final tax.	
25	ITL, Art. 12 (a) 4	Income from prizes, lottery, which its value or amount exceeds 1,000 Dinar at the rate of 10% and the withheld amount shall be considered a final tax.	Administrative
	Investment Promotion Exemptions		
26	IPL, Art. 7 (a)	Projects that fall within one of the sectors and subsectors in Article (3) of the same law shall be exempted from income and social services tax by the following percentages in accordance with the development area applicable: 25% for projects in class A area of development; 50% for projects in class B, and 75% for projects in class C.	To promote investment in certain sectors and areas in the kingdom (Repealed by the ITL of 2009. Income tax exemptions no longer provided by the IPL).
	Other Income Exemptions		
	ITL, Art. 67 (a), 1-11.	Subject to paragraph (b) of this article , no provisions provided for in any other legislation related to wholly or partially tax exemptions will be applicable except what is provided for in the following laws:	To promote social values
27	Law No. 8 of 1998	1. Charity Fund Law, Law No. 8 of 1998: All property and transactions shall be exempted from taxes, other fees, stamp	

[13] See USAID's FRPII Tax Incidence Study. If on equity grounds, tax incidence study shows that this deduction exempts nearly 98% of the population. Only the top decile of the population is subject to this tax.

		duties	
28	Law No. 7 of 1998	2. Al Hussein Corp. For Cancer Law, Law No. 7 of 1988The Foundation shall be exempted from all taxes, fees, and proceedings, including GST, municipal taxes and fees, and stamp duties.	To promote social values
29	Law No. 22 of 1999	3. King Hussein Bin Talal Foundations Law No. 22 of 1999: The Foundation shall be exempted from all taxes, fees ,proceedings , municipal taxes and fees ,and stamp duties.	To promote social values
30	Law No. 34 of 2000	4. Law of National Commission of Mine Action and Rehabilitation No. 34 of 2000: The Commission shall be exempted from all taxes, fees, and proceedings, including stamp duties.	To promote development
31	Law No. 27 of 2001	5. Law of National Council of Family Affairs, No. 27 of 2001: The Commission shall be exempted from all taxes, fees, and proceedings, including income tax, GST, customs duties, and stamp duties.	To promote social values
32	Law No. 33 of 2001	6. Law of Jordan River Foundation, No. 33 of 2001: All transactions shall be exempted from all taxes, fees, and proceedings, including GST.	To promote social values
33	Law No. 37 of 2004	7. King Abdullah II Fund for Development, No. 37 of 2004: All property, revenue, and transactions shall be exempted from all taxes and fees.	To promote development
34	Law No. 28 of 2006, Art. 3, b.	8. Public Funds Exemption Law, No. 28 of 2006: Under Article 3/B, the Council of Ministers may exempt any amount exceeding JOD 2,5000 upon a recommendation of the Minister of Finance and concerned party. (As of January 2010, these exemptions have been excluded income tax exemptions).	To promote investment and development
35	Law No. 15 of 2007	9. Hashemite Fund for Al Aqsa Reconstruction, Law No. 15 of 2007	To promote development
36	Law No. 32 of 2007	10. Royal Al Albeit Foundation for Islamic Thought No. 32 of 2007: All imports and transactions from all taxes, fees, and proceedings.	To promote social values
37	Laws on concessions	11. Laws on ratification of concession agreements:	To promote development
	ITL, Art. (b)	All provisions provided for the in the:	To promote development
38	ASEZ Law, Law No. 32 of 2000	Aqaba Special Economic Zone Law: Article (30) b, 1. Subject to what is stipulated in this Law, Registered Enterprises shall be exempted from all taxes and duties, including the following: income tax, social services tax and tax on distributing dividends of company stocks and shares on the income for Registered Enterprises accrued from their activities in the Zone or outside the Kingdom.	To promote development
39	Development and Free Zones Law, No. 2 of 2008	Development and Free Zones Law: Article 22 (a) 2: Income tax shall be 5% of the taxable income of the registered establishment resulting from its activity inside the development zones, except income generated by banks, financial companies , insurance and re-insurance companies, and land transportation companies operating in the development zone which shall be subject to the effective income tax law.	To promote development

Table 1.2. Tax Expenditures from Generals Sales and Special Sales Tax

	Legal Basis	Short Description	Purpose of tax expenditure
	Zero-rated goods and services		
1	GSTL, Art. (7) (a.1 and c)	Supply of goods listed in Schedule 2 annexed to the GST law is zero rated. Becomes taxable if their supply is combined or linked with other supply of goods subject to the general sales tax.	Equity, social values, and promotion of certain markets
2	GSTL, Art (7) (a.2)	Goods and services supplied to free zones, cities and duty free shops, or exported to places outside the Kingdom.	Promotion of exports, employment and investment
3	GSTL, Art. (7) (a.3)	Goods and services supplied to the bodies relieved from the payment of tax from Art. 21 of this Law.	International agreements and promotion of social values
	Tax exempt goods and services		
4	GSTL, Art. (7) (b,c,d)	Goods and services listed in schedule 3 annexed to the GST law. Becomes taxable if their supply is combined or linked with other supply of goods subject to the general sales tax. Any of the financial services exempted under schedule 3 if supplied in combination with taxable goods, the supply of such goods remains taxable, by reference to its value before it became combined with the exempted service.	Equity, social values, promotion of investment
	Supplies not subject to tax		
5	GSTL, Art. (10) (a)	Supply of goods and services if made after these were used for private purposes or for purposes not related to the taxable business licensed to be exercised by the taxable person according to this Law, unless he has already deducted or recovered the tax charged on these goods or services.	
6	GSTL, Art. (10) (b)	Supply of immovable property	
7	GSTL, Art. (10) (c)	Supply of shares and stocks in companies, investment funds and securities of all kinds.	Investment promotion
8	GSTL, Art. (10) (d)	Remuneration paid to officials, employees and workers in return for their service or for whatever associated with their service in ministries, government departments, public institutions and other public sector bodies. Also, all earnings received by employees and workers in return for their work or for whatever is related to their work for their employers, including bonuses and any other sums paid to board members of juridical Persons.	
9	GSTL, Art. (10) (e)	Goods and services imported from places outside the kingdom for the businesses established in the free zones, cities and duty free shops within the limits required to meet their purposes according to their own legislations provided that non-liability to tax be limited to their operations carried out in these free zones, cities and duty free shops.	
10	GSTL, Art. (10) (f)	Goods and services exported from the free zones, cities and duty free shops to places outside the kingdom.	
	Zero-rated		

11	GSTL, Art. (22)	If imported or locally purchased by any of the following bodies or projects: Armed Forces, the Public Security, Intelligence, and Civil Defense, Mosques, churches, orphanages, the elderly people, sport and cultural clubs, and individuals of special needs. Projects that enjoy the exemptions provided for under the Investment Promotion Law. Goods, services, as well as persons shall be tax-exempt if so approved, whether wholly or partially, by the Council of Ministers, in certain cases and for justifiable reasons upon recommendation by the Minister.	
	Investment Incentives		
12	IPL, Art. (3) a	Any project falling within the following Sectors or Subsectors shall enjoy the exemptions and facilities provided by this Law: 1. Industry 2. The Agriculture Sector (without prejudice to any privileges provided by other laws). 3. Hotels. 4. Hospitals. 5. Maritime Transport and Railways. 6. Any other Sector or subsectors the Council of Ministers decide to add upon the Council's recommendations.	Investment promotion
13	IPL, Art. (6) a	The Fixed Assets of the Project shall be exempted from Fees and Taxes provided that they are imported into the Kingdom within a period of three years from the date of the Committee's decision approving the lists of fixed Assets of the Project. The Committee may extend this period if it deems that the nature of the Project and the size of work required that.	Investment promotion
14	IPL, Art. (6) b	Imported spare parts for the Project shall be exempted from Fees and Taxes provided that the value of such spares does not exceed 15% of the value of the Fixed Assets for which they are required, and provided that they are imported into the Kingdom or used in the Project within a period of ten years from the date of commencement of production or work, in accordance with a decision taken by the Committee approving the lists of spare parts and their quantities.	Investment promotion
15	IPL, Art. (6) c	The Committee shall exempt from Fees and Taxes Fixed Assets that are required for the expansion, development or modernization of the Project if such expansion, development or modernization shall result in an increase in the Production Capacity of the Project by not less than 25%.	Investment promotion
16	IPL, Art. (6) d	The Committee shall exempt from Fees and Taxes any increase in the value of the Fixed Assets which are imported for the Project if such increase is a result of a rise in the prices	Investment promotion

		of such assets in the country of origin, of a rise in the freight charges applicable thereto or of changes in the exchange rate.	
17	IPL, Art. (8)	Projects in the Hotel and Hospital Sectors shall be granted additional exemptions from Fees and Taxes once every seven years for their purchases of furniture and supplies required for modernization and renewal, provided that such items are imported into the Kingdom or used in the Project within four years from the date of the Committee's decision approving the list of purchases and their quantities.	Investment promotion
18	IPL, Art. (22) b	The Committee shall carry out the duties and assume the authorities stated in this Law including the following: Approving additional exemptions pursuant to this Law.	Investment promotion
19	IPL, Art. (27)	If the ownership of the project is transferred during the granted exemption period, the Project shall continue to enjoy the granted exemptions, facilities and guarantees till the end of such period, provided that the new investor continues to work in the Project and replaces the previous investor in the rights and obligations provided under the provisions of this Law.	Investment promotion
20	Development and Free Zones Law, Art. (23) a	The goods and services purchased or imported by the registered establishment to practice its economic activities inside the development or free zone shall be zero-rated for the purpose of sales tax, without obliging the registered establishment to submit any guarantee to the Income and Sales Tax Department in this regard.	Investment promotion
21	Development and Free Zones Law, Art. (23)g	Notwithstanding the provisions of Paragraph (E) of this Article, forklifts and vehicles carrying 10 passengers or more (including the driver) sold to the registered establishment for transportation purposes from and to the establishment facilities inside the development or free zones shall be GST-exempt. The conditions of such exemption shall be organized under the regulation issued for this purpose.	Investment promotion
22	Development and Free Zones Law, Art. (24)	A. Subject to the provisions of Articles (22, 23) of this Law, the registered establishments practicing an economic activity inside the development zone shall have all the materials, equipment, and machinery used in their enterprises inside the development zone, including spare parts, exempt from all customs duties and other taxes.	Investment promotion

Table 1.3. Tax Expenditures from Custom Duties

	Legal Basis	Short Description
	Exemptions	
1	CTL, Chapter 1, Article 149	The following shall be exempted from customs duties and other fees and taxes:- Any items the council of ministers may decide to exempt upon recommendation of the minister, The minister shall determine the terms and procedures to be fulfilled in order to benefit from this exemption. Exempted imports may, by the Department's approval, be sold after being used or in case they were unsuitable for use. 75% of the sale return shall go to the Department in lieu of customs duties and other fees and taxes
	Military Exemptions	
2	CTL, Chapter 3, Article 155	Exemption from the customs duties and other fees and taxes shall be put into effect with regard to the imports of the armed forces and any Arab forces stationed in Jordan. The exempt shall cover ammunition, weapons, equipment, clothes, vehicles and their spare parts and any other items which the Council of Ministers determine upon recommendation of the Minister. If the imports prescribed in paragraph (A) of this Article were sold after being used or were rendered unfit for use, 75% of the sale return shall go to the Department in lieu of customs duties and other fees and taxes. Imports of the Military Consumer Establishment shall be exempted from customs duties and other fees and taxes in accordance with kinds, quantities and values determined by the Council of Ministers upon recommendation from the Minister in case there is no counterpart among the authorized Jordanian Industries determined by the Council of Ministers upon recommendation from the Minister and the Minister of Industry and Trade, notwithstanding any stipulation to the contrary in any other Law.
	Other Exemptions	
3	CTL, Chapter 6, Article 158	The following articles shall be exempted from customs duties and other fees and taxes under the conditions determined by the Director:- Samples which have no commercial value. Samples which can be benefited from and whose value shall be determined by directives from the Minister. Supplies, fuels, lubricating oils and spare parts needed by ships and aircrafts and also items needed by their crew and passengers in their trips abroad within the limits of reciprocity. Calendars designed for advertising. Decorations and sport and scientific prizes of no commercial characteristic. Personal gifts brought by the passengers on condition that they must have no commercial characteristic in accordance with directives issued by the Minister upon recommendation from the Director. All educational and medical materials, supporting aids, instruments, machinery and the parts, in addition to means of transportation required for schools, establishments and programmers belonging to handicapped and productive projects, either individual or collective, possessed and administered by handicapped, as well as means of transport especially designed for the use of handicapped upon recommendation from Ministry of Social Development and under the terms agreed upon by the Jordan Customs and the above-mentioned Ministry. The grants, donations and gifts received by Mosques, Churches and Monasteries for their private use. The imports of the Civil Consumer Corporation (Civil Servants shop) subject to the kinds, quantities and values determined by the Council of Ministers upon the recommendation of the Minister in case of no counterpart among Jordanian Industries determined by the Council of Ministers upon recommendation from the Minister and the Minister of Trade and Industry

		and not withstanding any other Law that prescribes otherwise.
	Investment Incentives	
4	IPL, Art. (3) a	Any project falling within the following Sectors or Subsectors shall enjoy the exemptions and facilities provided by this Law: 1. Industry 2. The Agriculture Sector (without prejudice to any privileges provided by other laws). 3. Hotels. 4. Hospitals. 5. Maritime Transport and Railways. 6. Any other Sector or subsectors the Council of Ministers decides to add upon the Council's recommendations.
5	IPL, Art. (6) a	The Fixed Assets of the Project shall be exempted from Fees and Taxes provided that they are imported into the Kingdom within a period of three years from the date of the Committee's decision approving the lists of fixed Assets of the Project. The Committee may extend this period if it deems that the nature of the Project and the size of work required that.
6	IPL, Art. (6) b	Imported spare parts for the Project shall be exempted from Fees and Taxes provided that the value of such spares does not exceed 15% of the value of the Fixed Assets for which they are required, and provided that they are imported into the Kingdom or used in the Project within a period of ten years from the date of commencement of production or work, in accordance with a decision taken by the Committee approving the lists of spare parts and their quantities.
7	IPL, Art. (6) c	The Committee shall exempt from Fees and Taxes Fixed Assets that are required for the expansion, development or modernization of the Project if such expansion, development or modernization shall result in an increase in the Production Capacity of the Project by not less than 25%.
8	IPL, Art. (6) d	The Committee shall exempt from Fees and Taxes any increase in the value of the Fixed Assets which are imported for the Project if such increase is a result of a rise in the prices of such assets in the country of origin, of a rise in the freight charges applicable thereto or of changes in the exchange rate.
9	IPL, Art. (8)	Projects in the Hotel and Hospital Sectors shall be granted additional exemptions from Fees and Taxes once every seven years for their purchases of furniture and supplies required for modernization and renewal, provided that such items are imported into the Kingdom or used in the Project within four years from the date of the Committee's decision approving the list of purchases and their quantities.
10	IPL, Art. (22) b	The Committee shall carry out the duties and assume the authorities stated in this Law including the following: Approving additional exemptions pursuant to this Law.
11	IPL, Art. (27)	If the ownership of the project is transferred during the granted exemption period, the Project shall continue to enjoy the granted exemptions, facilities and guarantees till the end of such period, provided that the new investor continues to work in the Project and replaces the previous investor in the rights and obligations provided under the provisions of this Law.
12	Development and Free Zones Law, Art. (23) a	The goods and services purchased or imported by the registered establishment to practice its economic activities inside the development or free zone shall be zero-rated for the purpose of sales tax, without obliging the registered establishment to submit any guarantee to the Income and Sales Tax Department in this regard.
13	Development and Free Zones Law, Art. (23)g	Notwithstanding the provisions of Paragraph (E) of this Article, forklifts and vehicles carrying 10 passengers or more (including the driver) sold to the registered establishment for transportation purposes from and to the establishment facilities inside the development or free zones shall be GST-

		exempt. The conditions of such exemption shall be organized under the regulation issued for this purpose.
14	Development and Free Zones Law, Art. (24)	A. Subject to the provisions of Articles (22, 23) of this Law, the registered establishments practicing an economic activity inside the development zone shall have all the materials, equipment, and machinery used in their enterprises inside the development zone, including spare parts, exempt from all customs duties and other taxes.

Table 1.4. Tax Expenditures from Real Property Taxes

	Legal Basis	Short Description
	Exemptions, Deductions, Reduced Tax Rate	
1	BLTL, Art. 13	The following shall be exempt from property tax: 6-Property designated for worship (e.g., mosques, churches, and convents) 7-Property owned by local or foreign sports, cultural, or social clubs, or any religious or charitable entity approved by the government and registered and licensed in the Kingdom and used as a head office for these entities. Buildings established for investment purposes or rented buildings shall not be exempt from the building tax; 8-Property owned by government-approved Jordanian political parties which are registered and licensed in the Kingdom and used as head offices of such parties. Buildings established for investment or rented buildings shall not be exempt from the building tax.
2	BLTL, Art. 2, A	Incomplete buildings shall be subject to vacant land tax;
3	BLTL, Art. 11, 2(B)	Vacant land tax shall be at the rate of (0.04%) and as stated in clause (D) of paragraph 1 of the same article above.
4	ETR, Art. 3, A	The following buildings shall be exempted from the education tax: 4. Buildings occupied by the charity and religious organizations and societies as well as scientific institutes, hospitals and sport and cultural clubs. 5. Buildings occupied by the staff of the foreign countries diplomats of the nationalities of such countries in the event of reciprocal treatment. The council of ministers may, upon recommendation of the Minister of Education exempt any other buildings from the education tax.

ANNEX 2. SALES TAX SCHEDULES 2010, 2013

Table 2.1 GSTL, Schedule 1: Special Sales Tax Schedule (2010)

No .	Description
1.	Cement of all kinds.
2.	Construction and reinforcement iron, plates, rods, angles, shapes, sections, tubes and the like, prepared for use in structures, of pig iron, iron or non-alloyed steel.
3.	Mineral lubricants and other lubrication materials and preparations containing by weight 70% or more of petroleum oils or of oils obtained from bituminous materials.
4.	Beer (including non-alcoholic beer).
5.	Ethyl alcohol, un-denatured.
6.	Spirits and alcoholic beverages, including wines and other fermented beverages.
7.	Tobacco and tobacco products.
8.	Vehicles (cars).
9.	Mobile phones and radios subscription service.

Table 2.2 GSTL, Schedule 2: Goods and Services Subject to the General Tax at Zero-Rate (2010)

No.	Description
1.	Food preparations for infant or handicapped use; food preparations exclusively used for special illnesses.
2.	Supplies used by the handicapped.
3.	Inputs of drug manufacturing, industrial machinery and equipment exempted under the Customs Tariff Tables and used to manufacture drugs, laboratory devices and its accessories needed for drug industry and spare parts, whether local or imported.
4.	Books and similar printed materials, whether or not loose-leafed, printed newspapers, magazines and periodicals, whether or not illustrated or containing advertisements, illustrated children books, drawing and coloring books.
5.	PVC granules (polyethylene) of low density, of black color only and of recycled materials by (75%) or more.
6.	Petroleum oils and oils obtained from bituminous minerals, crude; other than crude; petroleum gases and other gaseous hydrocarbons. (Excluding lubricants and other lubricating materials and preparations. containing by weight 70% or more of petroleum oils or of oils obtained from bituminous materials.

Table 2.3 GSTL, Schedule (3): Tax-Exempt Goods and Services (2010)

Exempt Goods		
No.	**Description**	**Tariff heading as published in The Gazette on February 28,2002**
1.	Wheat or Maslin flour.	11.01
2.	Bread.	Of heading 19.05
3.	Water, other than water put up in containers of capacity not exceeding 5 liters.	Of heading 22.01
4.	Olive oil.	15.09
5.	Meals catered by restaurants unclassified by the Ministry of Tourism, or by restaurants not required to fulfill the conditions and requirements of tourist restaurants, namely (Humus, Fool, Falafel and relevant items, vegetables, fries, rice and relevant items, and drinks, whether hot or cold).	
6.	Plastic floor coverings.	Of heading 57.03
7.	Banknotes and coins and similar monetary articles.	Of headings 71.18 and 49.07
8.	Gold of all kinds, jewelry and ornaments of gold, valuable metals and their parts and other precious stones. Diamonds, whether or not worked, but not mounted or set. Precious stones and semi-precious stones, whether or not worked. Waste and scrap of gold. Articles of jewelry and parts thereof, of precious metal. Articles of goldsmith's wares and parts thereof, of precious metal. Other articles of precious metal.	Of headings 71.06, 71.08 71.02 71.03 7112.91 71.13 71.14 71.15
9.	Goods supplied by Islamic banks and already purchased from persons unregistered for sales tax.	
10.	Electrical energy.	27.16
11.	Motor cars and other motor vehicles duly cleared, registered, licensed, and locally used following the licensing process.	87.03
12.	Hand-operated vehicles without pedals for use by disabled persons.	Of heading 87.03
13.	Fire-fighting vehicles.	Of heading 87.05
14.	Aircraft, ships, and parts thereof.	Of chapter 88 and 89
15.	Goods gifted or donated to orphanage centers, shelters of the disabled, hospitals, mosques, Zakat Fund, Zakat Committees, Charities and churches.	
Exempt Services		
No.	**classification**	**International Coding**
1-	Production, collection and distribution of electricity.	4001
2-	Collection, purification and distribution of water.	41
3-	Construction, performed under a contract endorsed by the Jordanian Contractor's Association, excluding the following sub-headings: (a) (4550) renting of construction and destruction equipment; (b) (451002) selling of materials resulting from construction, subject to the exempt construction activity be not made in combination with any other activity	45

	making the exempt activity taxable.	
4-	Land transport; transport via pipelines, excluding the following: (a) (602104) passenger transport by cable elevators (Telefrique). (b) (602203) car rental, together with drivers. (c) Passenger transport by tourist buses.	60
5-	Water transport.	61
6-	Air transport.	62
7-	Other supporting and auxiliary transport activities.	6303
8-	Financial intermediation, except insurance and pension funding provided by associations and firms licensed under the Bank Law in force.	65
9-	Insurance and pension funding, except compulsory social security.	66
10-	Activities auxiliary to financial intermediation provided by associations and firms licensed under the Securities Law in force.	67
11-	Real estate activities (selling and purchasing of lands and buildings, whether or not residential).	701001
12-	Real estate activities with own or leased property.	701002
13-	Law offices' activities associated with case litigations at courts.	741101
14-	Public administration and defense; compulsory social security.	75
15-	Education.	80
16-	Health and social work, except sub-heading (853203) concerning Charities' activities.	85
17-	Sewage and refuse disposal, sanitation and similar activities.	90
18-	Activities of religious organizations.	9191
19-	Activities of political organizations.	9192
20-	Radio and television activities.	9213
21-	News agency activities.	922
22-	Library and archives activities, museums and other cultural activities.	923
23-	Funeral and related activities.	9303
24-	Office activities rendered for establishments outside the Kingdom.	98
25-	Extra-territorial organizations and bodies	99
26-	Services subject to the Additional Tax under law 28 of 1969 as amended.	
27-	Catering service of meals consisting of the following items (Humus, Fool, Falafel and relevant items, vegetables, fries, rice and relevant items, and drinks, whether hot or cold) supplied by restaurants unclassified by the Ministry of Tourism, or by restaurants not required to fulfill the conditions and requirements of tourist restaurants.	
28-	Oil Pressing Service	
29-	Health and Accident Insurance	
30-	Reinsurance	
31-	Sporting, Training and Education	

Table 2.4 GST, Schedule (5): Goods Subject to the Reduced Rate of General Tax at 4 Percent (2010)

No.	DESCRIPTION
1.	Live animals.
2.	Meat and edible meat offal.
3.	Fish or fish fillets and other fish meat, other than crustaceans, mollusks and other aquatic invertebrates.
4.	Dairy produce, Birds' eggs, natural honey.
5.	Live trees and other plants, bulbs, roots and the like.
6.	Edible vegetables and certain roots and tubers, other than frozen or dried, such as canned legumes.
7.	Edible fruit and nuts, fresh or chilled, other than frozen or dried.
8.	Tea.
9.	Cereals.
10.	Thyme.
11.	Products of the milling industry, excluding wheat, starches, inulin and wheat gluten.
12.	Seeds, fruit and spores, of a kind used for sowing, whether or not preserved or canned.
13.	Plants and parts of plants (including seeds and fruits), of a kind used primarily in perfumery, in pharmacy or for insecticidal, fungicidal or similar purposes, fresh or dried, whether or not cut, crushed or powdered.
14.	Cereal straw and husks, unprepared, whether or not chopped, ground, pressed or in the form of pellets.
15.	Swedes, mangolds, fodder roots, hay, Lucerne (alfalfa), clover, sainfoin forage kale, lupines, vetches and similar forage products, whether or not in the form of pellets.
16.	Vegetable fats and oils, other than olive oil.
17.	Preparations of meat, of fish, other than Prepared or preserved caviar and caviar substitutes.
18.	Cane or beet sugar and chemically pure sucrose, in solid form.
19.	Molasses for yeast production.
20.	Uncooked pasta not stuffed or otherwise prepared (such as macaroni, vermicelli).
21.	Vegetables, fruit, nuts and other edible parts of plants prepared or preserved by vinegar or acetic acid.
22.	Tomato paste.
23.	Olives preserved otherwise than by vinegar or acetic acid.
24.	Inactive yeasts.
25.	Sweetened sesame seed meal (Halawa), Unsweetened sesame seed meal.
26.	Table salt.
27.	Kenafa, Hareesa, Awamma, Barasiq and (pies other than pizza), uncombined with catering service.
28.	Residues and waste from the food industries; prepared animal fodder.
29.	Pebbles, gravel, broken or crushed stone, of the kind commonly used for concrete aggregates, for road metalling. Limestone flux; Limestone and other calcareous stone, of a kind used for the manufacture of lime or cement other than crude sandstone.
30.	Natural Phosphates.
31.	Potash.
32.	Radioactive chemical elements and radioactive isotopes (including the fissile or fertile chemical elements and isotopes) and their compounds; mixtures and residues containing these products.
33.	Sodium hydrogen carbonate (sodium bicarbonate).
34.	Pharmaceutical products.
35.	Fertilizers.
36.	Diagnostic or laboratory reagents.
37.	Sterilizers.
38.	Acidic salts.

39.	Disposable bags for patient's use.
40.	Egg holders.
41.	Sheath contraceptives.
42.	Plates, sheets and strips used for retreading rubber tires.
43.	Other articles of vulcanized rubber other than hard rubber, Imported by retreaders.
44.	Camel-back strips for retreading rubber tires.
45.	Unvulcanised rubber thread and cord used for retreading rubber tires.
46.	New pneumatic tires of rubber of a kind used on buses or lorries, of inner diameter 17-24 inch.
47.	Erasers.
48.	Pencil sharpeners.
49.	Ball point pens, pencils and pastels.
50.	School satchels.
51.	School copybooks and university lectures books.
52.	Drawing sets, slide rules.
53.	Agricultural fertilizers, peat.
54.	Pesticides, insecticides, rodenticides, fungicides, herbicides, anti-sprouting products and plant growth regulators; disinfectants.
55.	Foils of plastic for agricultural use, pars of drip irrigation systems.
56.	Seedling trays used in agriculture.
57.	Containers prepared for packing of agricultural fresh products.
58.	Kerosene or gas fuel operated stoves.
59.	Structures of agricultural plastic shelters.
60.	Agricultural tractors.
61.	Hand tools, the following : spades, shovels, mattocks, picks, hoes, forks and rakes; axes, bill hooks and similar hewing tools; secateurs and pruners of any kind; scythes, sickles, hay knives, hedge shears, timber wedges and other tools of a kind used in agriculture, horticulture or forestry.
62.	Agricultural, horticultural or forestry machinery for soil preparation or cultivation; lawn or sports-ground rollers, poultry-keeping or bee-keeping machinery or Milking machines.
63.	Harvesting or threshing machinery, including straw or fodder balers; grass or hay mowers; machines for cleaning, sorting or grading eggs, fruit or other agricultural produce, other than machinery of heading No. 84.37. Grounds of Tariff Tables.
64.	Tents and accessories thereof.
65.	Firefighting equipment, alarms, and air and liquid purification equipment used for environment protection.
66.	Ambulances and hearses.
67.	Medical lenses, including medical contact lenses.
68.	Filters of artificial kidneys.
69.	Balloons to aid heart muscles.
70.	Device to aid heart muscles.
71.	Various medical catheters.
72.	Various medical joints.
73.	Rubber pipes for blood dioxides.
74.	Blood dioxides.
75.	Heart veins widening nets.
76.	Artificial heart valves.
77.	Ozone therapy, oxygen therapy, aerosol therapy, artificial respiration or other therapeutic respiration apparatus
78.	Breathing appliances and gas masks.
79.	Syringes, with or without needles.
80.	Tubular metal needles and needles for sutures.
81.	Orthopaedic appliances, including crutches, surgical belts and trusses; splints and other fracture appliances; artificial parts of the body; hearing aids and other appliances which are worn or carried, or implanted in the body, to compensate for a defect.
82.	School uniform and fabrics thereof.

83.	Shampoos for treatment of nits, lice and fungal diseases.
84.	Sesamum seeds, whether or not broken.
85.	Dry leguminous legumes.
86.	Cakes containing by weight 50% or more of cocoa flour or other food preparations.
87.	Materials used as fertilizers, namely, (Potassium nitrite, Magnesium nitrite, Calcium nitrite, Copper Sulphate, Zinc Sulphate, Manganese Sulphate, and Monopotacium Phosphate).
88.	Used tires imported by retreaders as row materials to be incorporated in the retreading process.
89.	Canned legumes and inputs thereof.
90.	Quicklime, slaked lime, limestone blocks.
91.	Perlite and chiolite.

2013)

<table>
<tr><th></th><th>Tax base</th><th>SST Rate</th></tr>
<tr><td></td><td>Liter</td><td>0</td></tr>
<tr><td></td><td>Liter</td><td>0</td></tr>
<tr><td>non-alcoholic beer.</td><td>Liter</td><td>JD1.4</td></tr>
<tr><td>thyl</td><td>Liter</td><td>JD2.5</td></tr>
<tr><td>coholic beverages, including wines and other rages.</td><td>Liter (diluted)</td><td>JD2.5</td></tr>
<tr><td>bacco products:

me use

to the Jordanian Armed Forces, Public Security, nce, and Civil Defence.</td><td>Net Kg

Pack of (20) cigarettes + value

Pack of (20) cigarettes + value
Value</td><td>JD3.3

JD0.32 plus (102%) plus the amounts below, whichever is higher:
<table><tr><th>Consumer selling Price (in Fils)</th><th>Advalorem Tax</th></tr><tr><td>550</td><td>130</td></tr><tr><td>600</td><td>150</td></tr><tr><td>650</td><td>170</td></tr><tr><td>700</td><td>195</td></tr><tr><td>750</td><td>215</td></tr><tr><td>800</td><td>240</td></tr><tr><td>850</td><td>260</td></tr><tr><td>900</td><td>280</td></tr><tr><td>1000</td><td>325</td></tr><tr><td>1200</td><td>410</td></tr></table>
(190) Fils plus (102%)

15%</td></tr>
</table>

7.	a) Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading No.87.02), including station wagons and racing cars, whether imported or locally produced not earlier than five years. b) Motor cars and other motor vehicles principally designed for the transport of persons (other than those of heading No.87.02), including station wagons and racing cars, whether imported or locally produced earlier than five years. c) Motor vehicles for the transport of ten or more persons, including the driver, motor vehicles for the transport of goods, and special motor vehicles, produced five years or more earlier, which come under heading No. (8702, 8704, 8705) of Tariff Tables.	Value Value Value	25% 45% 16%
8.	Mobile phones and radio subscription service, whether post-paid or pre-paid.	Value	24%
9.	Fuel derivatives: (introduced in 2009) (1) Gasoline octane 90 (2) Gasoline octane 95	Value Value	18% 24%
10.	Air tickets (introduced in 2009)	Ticket	JD30
11.	Perfumes (introduced in 2012 – up to item 22)	Value	25%
12.	Cosmetics	Value	25%
13.	Precious and semi-precious stones	Value	5%
14.	Artworks and antiques	Value	20%
15.	Musical instruments and parts thereof	Value	5%
16.	Mobile phones	Value	8%
17.	Cat's and dog's food	Value	20%
18.	Ornamental fish	Value	20%
19.	Natural and artificial pearl	Value	20%
20.	Artificial flowers and ornaments	Value	20%
21.	Diamond	Value	5%
22.	Wear of natural leather and fur	Value	25%

Table 2.6 Schedule 2, Zero-Rated Items (2013)

Seq.	Item	HS Code
1.	Food preparations for infant or handicapped use; food preparations exclusively used for special illnesses.	Of headings 19.01, 19.05 and 21.06
2.	Supplies used by the handicapped.	Inconsistent with HS coding
3.	Inputs of drug manufacturing, industrial machinery and equipment exempted under the Customs Tariff Tables and used to manufacture drugs, laboratory devices and its accessories needed for drug industry and spare parts, whether local or imported.	
4.	Books and similar printed materials, whether or not loose-leafed, printed newspapers, magazines and periodicals, whether or not illustrated or containing advertisements, illustrated children books, drawing and coloring books. (Likewise, printing of books for anybody is a taxable goods and subject to the same GST rate provided that all inputs – ink, paper, etc- belong to the same printing agency).	49.01, 49.02 and items of heading 49.03
5.	PVC granules (polyethylene) of low density, of black color only and of recycled materials by (75%) or more.	
6.	- Petroleum oils and oils obtained from bituminous minerals, crude; other than crude; petroleum gases and other gaseous hydrocarbons. (Excluding lubricants and other lubricating materials and preparations. containing by weight 70% or more of petroleum oils or of oils obtained from bituminous materials (excluding gasoline of all kinds). - Hydraulic oils used for manufacturing.	27.09 , 27.11 and items under Heading 27.10
7.	Beef	Items under Heading 2.01
8.	Beef	Items under Heading 2.04
9.	Lam meat	Items under Heading 2.04
10.	Chicken	Items under Heading 207.120
11.	Fish	302.4, 302.5, 302.69
12.	Fish	303,31, 303.32, 303.33, 303.39, 303.41, 303.49, 303,51, 303.52, 303.74, 303.79
13.	Sliced fish (all forms)	Items under Heading 3.04
14.	Butter and similar fats	Items under Heading 4.05
15.	Natural honey	Items under Heading 4.09
16.	Potatoes, fresh or chilled	Items under Heading 7.01
17.	Sardines and tuna	Items under Heading 1604.13 and 1604.140
18.	Chrome paints	3206.19
19.	Paints	3206.49
20.	Tempered glass imported by manufacturers as production inputs.	7997.191

21.		72.08, 72.09, 72.10
22.	Pipes	7411.219, 7411.221, 7411.291
23.	Thermostatic valve, three way valve, four way valve, solenoid valve, imported by manufacturers as production inputs	8481.804
24.	Integrated wind-energy generators	8412.80
25.	Centrifuges pumps	8413.81
26.	Heat sensors	9032.903
27.		8481.301
28.	Solar plates	8541.40
29.	Pipes	3917.311
30.	Steel pipes	7304.313, 7304.393, 7304.413, 7304.493, 7304.513, 7304.593
31.	Welding joint supplies T-joints	7307.211, 7307.221, 7307.231, 7307.992
32.	Wind Energy-generators	8412.901
33.		7308.201
34.	Wind velocity and direction devices	9015.801
35.	Hydraulic control systems	9032.81
36.	Electronic control systems	9032.893, 9032.899
37.	temperature control units	9032.10
38.	Isolated water tanks with heaters	8419.193
39.	Integrated solar system	8419.192
40.	Electrostatics (10 kg or less)	8504.403
41.	Batteries	8507.201
42.	Solar-operated air conditions	8415.101
43.	Solar-operated refrigerators	8418.102, 8418.211, 8418.302, 8418.402
44.	Air condition split units	9032.209
45.	Isolation materials	6806.104, 6806.901
46.	Construction isolation materials (polyester)	3921.11
47.	Construction isolation materials (poly urethanes)	
48.	Construction isolation materials (Fiberglass)	7019
49.	Sunshine reflection plates (rolls)	3919.105, 3919.903
50.	Capacity improvement units	8532.10
51.	Energy saving lights	8539.311
52.	Florescent pipes	8539.31
53.	Light control systems	8533.40
54.	Light control systems - Dimmers	8541.30
55.	Sodium lights	8539.321

56.	Lighting units	9405.101, 9405.402
57.	Air filters	8481.804
58.	Insecticides	3808
59.	Plastic covers (mulch)	3917, 3920
60.	Planting plates	3923
61.	Live trees and plants	0601, 0602
62.	Fruit and seeds	Of Chapter 12
63.	Containers for agricultural produce	39.23, 4415
64.	Greenhouse structures	7308.901
65.	Agricultural tractors	8701
66.	Cultivation machines	8432
67.	Harvest machines	8433
68.	Fodder production leftovers, animal food excluding cats, birds, dogs and pigs	Chapter 23
69.	Fodder concentrates	2309.901
70.	Raw material for fodder production	Of Chapter 23
71.	Eggs	407.001
72.	Chicks (all kinds)	105
73.	Vet medicines	3004
74.	Vet vaccines	3002.3
75.	Egg plates (all kinds)	Of Chapters 39 or 48
76.	Agricultural fertilizers	Items under Heading 3824.902
77.		2703
78.	Calcium nitrates	2834.29
79.	Urea for agriculture use	3102.1
80.	Ammoniac for agriculture use	3102.21
81.	Dual ammonium phosphate DAP	3105.51
82.	Potassium mono-phosphate NKP	3105.6
83.	Phosphate urea (powder and liquid)	3102.1
84.	Potassium chloride for agriculture use	3104.2
85.	Hemic acid	3824.902
86.	Monoacids	3105.9
87.	Agricultural hormones (growth regulators)	3808.959
88.	Ammonium mono-phosphate NAP	3105.4
89.	Potassium nitrates	2834.21
90.	Magnesium nitrates	2834.29
91.	Potassium soleplates 50%	3104.3
92.	Fertilizers containing the three ingredients of nitrogen, phosphor and potash NPK.	3105.20
93.	Vacuum tubes	8419.903

94.		8414, 5992
95.	Isolation boards	3925.902
96.	Agricultural Sprinklers	5608, 8424
97.	Medicines, lab regents, medical supplies, cancer treatment devices used by Al Hussein Cancer Treatment Center.	

Table 2.7 Schedule 3, Exempted Good and Services (2013)

First: TAX-EXEMPT GOODS:

Seq.	Item	HS Code
1.	Wheat or Maslin flour.	11.01
2.	Bread.	Of heading 19.05
3.	Water, other than water put up in containers of capacity not exceeding 5 liters.	Of heading 22.01
4.	Olive oil.	15.09
5.	Items served by restaurants unclassified by the Ministry of Tourism, or by restaurants not required to fulfill the conditions and requirements of tourist restaurants, namely (Humus, Fool, Falafel and relevant items, rice, vegetables, fries, and relevant items, and drinks served in combination with these items, whether hot or cold).	
6.	Plastic floor coverings.	Of heading 57.03
7.	Banknotes and coins and similar monetary articles.	Of headings 4907, 71.18
8.	Gold of all kinds, jewelry and ornaments of gold, valuable metals and their parts and other precious stones. (Diamonds, whether or not worked, but not mounted or set). (Precious stones and semi-precious stones, whether or not worked). (Waste and scrap of gold). (Articles of jewelry and parts thereof, of precious metal). (Articles of goldsmith's wares and parts thereof, of precious metal). (Other articles of precious metal).	Of headings 71.06, 71.08 71.02 71.03 7112.91 71.13 71.14 71.15
9.	Goods supplied by Islamic banks after having them purchased from persons unregistered for sales tax.	
10.	Electricity.	27.16
11.	Motor cars and other motor vehicles duly cleared, registered, licensed, and locally used following the licensing process.	87.03
12.	Hand-operated vehicles without pedals for use by the disabled.	Of heading 87.03
13.	Fire-fighting vehicles.	Of heading 87.05
14.	Aircraft, ships, and parts thereof.	Of chapter 88 and 89

15.	Goods gifted or donated to orphanages, shelters of the disabled, hospitals, mosques, Zakât Fund, Zakât Committees, Charities, churches, as well as any gift or grant given to any other body approved by the Minister upon recommendation by the Director.	
16.	Tourist cars other than those under 8702	
17.	Cars	8702, 8704, 8705
18.	Mobile phones including smart phones	
19.	Milk other than dry milk under (04.02) excluding milk powder imported in containers not exceeding 3kg.	Items under Headings 04.01, 04.02
20.	Chickpeas	Items under Headings 071.29, 0713.20
21.	Lentils	0713.4
22.	Tea	09.02
23.	Wheat	10.01
24.	Rice	10.06
25.	Corn	10.05
26.	Corn flour	1102.20
27.	Sugar	All items under Heading 17.01
28.	Isolation material (Poly urethanes)	
29.	Electric and hybrid cars	
30.	Air tickets outside the country	
31.	Energy-saving light control systems	8537.109
32.	Fresh dates	
33.	Peas and broad beans	
34.	Beans	
35.	Onion	
36.	Garlic	
37.	Cucumber	
38.	Tomatoes	
39.	Carrot	
40.	Potatoes (excluding that listed in Schedule 2)	
41.	Hardened yogurt and whey purchased or imported by manufacturers as production input	
42.	Chilled chicken	
43.	Scraped steel- local purchased or imported by steel manufacturers	

Second: Tax-Exempt Services

Seq.	Classification	ISIC3 Code
1.	Production, collection and distribution of electricity.	4001
2.	Collection, purification and distribution of water.	41
3.	Construction, performed under a contract endorsed by the Jordanian Contractor's Association, excluding the following sub-headings: a. (4550) renting of construction and destruction equipment. b. (451002) selling of materials resulting from construction, on condition that the tax-exempt construction activity be not made in combination with any other activity that would make the exempted activity liable to tax.	45
4.	Land transport; transport via pipelines, excluding the following: a. (602104) passenger transport by cable elevators (Telefrique). (602203) car rental, rented together with drivers. Passenger transport by means of tourist buses.	60
5.	Water transport.	61
6.	Air transport.	62
7.	Other supporting and auxiliary transport activities.	6303
8.	Financial intermediation, except insurance and pension funding provided by associations and firms licensed under the Bank Law in force.	65
9.	Insurance and pension funding, except compulsory social security.	6601 6602
10.	Activities auxiliary to financial intermediation provided by associations and firms licensed under the Securities Law in force.	67
11.	Real estate activities (selling and purchasing of lands and buildings, whether or not residential).	701001
12.	Real estate activities with own or leased property.	701002
13.	Law offices' activities associated with case litigations at courts.	741101
14.	Public administration and defense; compulsory social security.	75
15.	Education.	80
16.	Health and social work, except sub-heading (853203) concerning Charities' activities.	85
17.	Sewage and refuse disposal, sanitation and similar activities.	90
18.	Activities of religious organizations.	9191
19.	Activities of political organizations.	9192
20.	Radio and television activities.	9213
21.	News agency activities.	922
22.	Library and archives activities, museums and other cultural activities.	923
23.	Funeral and related activities.	9303
24.	Office activities rendered for establishments outside the Kingdom.	98
25.	Extra-territorial organizations and bodies.	99

26.	Services subject to the Additional Tax under law 28 of 1969 as amended.	
27.	Catering service of meals consisting of the following items (Humus, Fool, Falafel and relevant items, rice, vegetables, fries, and relevant items, and drinks served in combination with these items, whether hot or cold) supplied by restaurants unclassified by the Ministry of Tourism, or by restaurants not required to fulfill the conditions and requirements of tourist restaurants.	
28.	Olive oil Pressing Service.	
29.	Health and Accident Insurance.	
30.	Reinsurance services.	
31.	Sport, Training, and Education.	
32.	Gold and jewelries works	3691

Table 2.8 Schedule 4, Non-deductible Good and Services (2013)

No.	Classification	Code
1.	Goods and services used for non-business purposes.	
2.	Goods and services attributable to exempt or non-taxable supplies.	
3.	Sport and recreational facilities, other than those used for supplying goods or service.	924
4.	Restaurants and hotels services, other than those used for supplying goods or service.	55
5.	Purchases accounted for as returned purchases.	
6.	The Special Tax paid on the items listed in Schedule (1) unless otherwise provided for.	
7.	Goods and services that have been used for construction purposes, other than those used for renting of construction and destruction equipment.	Headings from 4520.14 to 4520.20
8.	Saloon cars, other than those purchased by car- trading or car rental businesses.	87.03

Table 2.9 Schedule 5, Goods Subject to 4% Reduced GST Rate (2013)

Seq.	Items	HS CODE as Published in the Official Gazette on February 28,2002
1.	Live animals.	Chapter 1
2.	Meat and edible meat offal (except for those listed in Schedule 2).	Chapter 2
3.	Fish or fish fillets and other fish meat, other than crustaceans, mollusks and other aquatic invertebrates (except for those listed in Schedule 2).	03.01 to 03.50
4.	Dairy produce, Birds' eggs, natural honey.	Chapter 4 excluding 04.02
5.	Edible vegetables and certain roots and tubers, other than frozen or dried, such as canned legumes (except for those listed in Schedule 2).	Of chapter 7
6.	Edible fruit and nuts, fresh or chilled, other than frozen or dried (excluding pine, hazelnut, chateau, almonds and walnut).	Of chapter 8
7.	Cereals (excluding chickpeas, lentils, wheat, corn and rice).	Chapter 10
8.	Thyme.	0910.991
9.	Products of the milling industry, excluding wheat, starches, inulin and wheat gluten.	Chapter 11, other than Headings (11.01), (11.08), (11.09)
10.	Plants and parts of plants (including seeds and fruits), of a kind used primarily in perfumery, in pharmacy or for insecticidal, fungicidal or similar purposes, fresh or dried, whether or not cut, crushed or powdered.	12.11
11.	Cereal straw and husks, unprepared, whether or not chopped, ground, pressed or in the form of pellets.	12.13
12.	Swedes, mangolds, fodder roots, hay, Lucerne (alfalfa), clover, sainfoin forage kale, lupines, vetches and similar forage products, whether or not in the form of pellets.	12.14
13.	Vegetable fats and oils, other than olive oil.	15.07 to 15.17, excluding 15.09
14.	Preparations of meat, of fish, other than Prepared or preserved caviar and caviar substitutes (except for those listed in Schedule 2).	16.01, 16.02 and certain items under 16.04
15.	Molasses for yeast production.	1703.10
16.	Uncooked pasta not stuffed or otherwise prepared (such as macaroni, vermicelli).	Certain items under heading 1902.10
17.	Vegetables, fruit, nuts and other edible parts of plants prepared or preserved by vinegar or acetic acid.	2001
18.	Tomato paste.	Of heading 2002.90
19.	Olives preserved otherwise than by vinegar or acetic acid.	2005.70
20.	Inactive yeasts.	Of heading 21.02
21.	Sweetened sesame seed meal (Halawa), Unsweetened sesame seed meal.	Of headings 1704.90, 2103.09
22.	Table salt.	Of Heading 2501
23.	Kenafa, Hareesa, Awamma, Barasiq and (pies other than pizza), uncombined with catering	Of headings 1905 and 2106

	services.	
24.	Pebbles, gravel, broken or crushed stone, of the kind commonly used for concrete aggregates, for road metalling. Limestone flux; Limestone and other calcareous stone, of a kind used for the manufacture of lime or cement other than crude sandstone.	25.21 and certain items under heading 25.17
25.	Natural Phosphates.	25.10
26.	Potash.	2805.19
27.	Radioactive chemical elements and radioactive isotopes (including the fissile or fertile chemical elements and isotopes) and their compounds; mixtures and residues containing these products.	28.44
28.	Sodium hydrogen carbonates (sodium bicarbonate).	2836.30
29.	Pharmaceutical products.	Chapter 30
30.	Fertilizers (except for those listed in Schedule 2).	Chapter 31
31.	Diagnostic or laboratory reagents.	38.22
32.	Sterilizers.	3808.49
33.	Acidic salts.	3808.909
34.	Disposable bags for patient's use.	3926.901
35.	Sheath contraceptives.	4014.10
36.	Plates, sheets and strips used for retreading rubber tyres.	4001.291, 4005.101 and 4005.911
37.	Other articles of vulcanized rubber other than hard rubber, Imported by retreaders.	4016.993
38.	Camel-back strips for retreading rubber tyres.	4006.10
39.	Unvulcanised rubber thread and cord used for retreading rubber tyers.	4006.901
40.	Erasers.	of headings 3926 and 4016
41.	Pencil sharpeners.	Of headings 8214 and 8472
42.	Ball point pens, pencils and pastels.	Of headings 9608 and 9609
43.	School satchels.	Of heading 4202
44.	School copybooks and university lectures books.	Of heading 4820
45.	Drawing sets, slide rules.	Of heading 9017
46.	Containers prepared for packing of agricultural fresh products.	Of headings 48.19, and 63.05
47.	Kerosene or gas fuel operated stoves.	Of heading 73.21
48.	Hand tools, the following : spades, shovels, mattocks, picks, hoes, forks and rakes; axes, bill hooks and similar hewing tools; secateurs and pruners of any kind; scythes, sickles, hay knives, hedge shears, timber wedges and other tools of a kind used in agriculture, horticulture or forestry.	8201
49.	Machinery for cow milking purposes.	Of headings 84.34
50.	Tents and accessories thereof.	Of heading 6306
51.	Firefighting equipment, alarms, and air and liquid purification equipment used for environment protection.	Of headings 8421, 8424 and 8531
52.	Ambulances and hearses.	Of heading 87.03
53.	Medical lenses, including medical contact lenses.	Of heading 9001
54.	Filters of artificial kidneys.	8421.291

55.	Balloons to aid heart muscles.	9018.9000
56.	Device to aid heart muscles.	9018.9000
57.	Various medical catheters.	9018.9000
58.	Various medical joints.	9018.9000
59.	Rubber pipes for blood dioxides.	9018.9000
60.	Blood dioxides.	9018.9000
61.	Heart veins widening nets.	9018.9010
62.	Artificial heart valves.	9018.9010
63.	Ozone therapy, oxygen therapy, aerosol therapy, artificial respiration or other therapeutic respiration apparatus	9019.20
64.	Breathing appliances and gas masks.	9020.00
65.	Syringes, with or without needles.	9018.31
66.	Tubular metal needles and needles for sutures.	9018.32
67.	Orthopaedic appliances, including crutches, surgical belts and trusses; splints and other fracture appliances; artificial parts of the body; hearing aids and other appliances which are worn or carried, or implanted in the body, to compensate for a defect.	9021
68.	School uniform and fabrics thereof.	
69.	Shampoos for treatment of nits, lice and fungal diseases.	3305.101
70.	Sesamum seeds, whether or not broken.	1207.40
71.	Dry leguminous legumes.	
72.	Cakes containing by weight 50% or more of cocoa flour or other food preparations.	
73.	Used tires imported by retreaders as row materials to be incorporated in the retreading process.	
74.	Canned legumes and inputs thereof.	
75.	Quicklime, slaked lime, limestone blocks.	
76.	Perlite and chiolite.	
77.	Freekah	
78.	Bulgur	
79.	Dried dates	
80.	Gabardine	
81.	Uncooked and untoasted soya beans	
82.	Frozen chicken, not cut into parts	
83.	Cheese	04.06
84.	Unleaded gasoline, octane 90	
85.	Cooked cheese, containing vegetable oils and/ or vegetable fats	Of Chapter 4
86.	Vermicelli	Certain items under Heading 1902
87.	Brand new outer tyres of measure 17-24 of the kinds used for buses and trucks.	40.11
88.	Palm oil	

Table 2.10 Schedule 6, Goods Subject to 8% Reduced GST Rate (2013)

Seq.	ITEMS	HS CODE
1.	Construction steel bars of 5.5mm or more.	Certain Items under Headings 735, 7214, 7215
2.	Home internet services	Chapter 2
3.	Steel built and rolls imported by manufacturer as production inputs	Certain Items under Headings 7206, 7207, 7314.31, 7314.39
4.	Cream	Certain Items of Chapters 4 and 19
5.	Hotel accommodation services	Became subject to 16% as of May 1, 2013

ANNEX 3. HOUSEHOLD INCOME LEVELS (2010)

		salaries and cash components (singles)		salaries and cash components (families)		Self-Employment Income (singles)		Self-Employment Income (families)		Combined Income (singles)		Combined Income (families)	
	Threshold	# of Households	average income	# of Households	average income	# of Households	average income	# of Households	average income	# of Households	average income	# of Households	average income
1	< JD 4000	20,453	108	395,695	1,965	3,138	213	96,351	1,712	56	2,775	73,716	2,901
2	< JD 6000	253	6,426	153,925	5,315	162	5,423	28,891	5,387			56,340	5,431
3	< JD 8000			57,978	7,642	260	7,458	10,977	7,658			42,494	7,562
4	< JD 9000			18,426	9,354			5,449	9,440			19,656	9,335
5	< JD 10,000			13,853	10,488			3,159	10,472			12,837	10,396
6	< JD 12,000			24,301	12,086			3,420	12,199			18,101	11,977
7	< JD 16,000	51	17,226	19,931	15,103			3,660	14,896			17,323	15,130
8	< JD 18,000			3,625	18,825			337	19,138			4,405	18,719
9	< JD 24,000	158	22,439	3,771	22,616			1,969	21,789			4,973	22,631
10	< JD 30,000			2,510	28,898			1,196	29,350			1,569	28,598
11	> JD 30,000			2,907	49,606			1,566	103,323			3,957	89,038

Average income represents those reported under the HEIS and adjusted up by 10 percent to compensate for differences with consumption levels. The weighted total number of households is 1,133,799.

Source: Author's calculations based on the Department of Statistics' Household Expenditure and Income Survey (2010)

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