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PROPERTY TAXES: MISSED OPPORTUNITIES FOR FUNDING UNIVERSAL SOCIAL PROTECTION IN LEBANON, MOROCCO, AND JORDAN?

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Introduction

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The West Asia-North Africa (WANA) region (also known as the Middle East and North Africa) has poor tax collection rates. At first glance, one might attribute this to oil-producing countries known for low tax rates. However, even when excluding these countries, the tax rate in oil-importing countries remains around 18%, which is below both the global average and the averages of comparable countries and regions. The gap between the region and the world increases when only direct taxes are considered because indirect taxes account for a higher share of the region's total tax revenue.[1] Among oil-importing countries, the situation is better in the Maghreb than in the Mashreq, where the tax-to-GDP ratio is approximately 26%. In contrast, the Mashreq has a ratio of 14.5%. In the oil-rich Gulf Cooperation Council (GCC) countries, this ratio drops to 1.48%. Additionally, Maghreb countries benefit from a lower proportion of indirect taxes on goods and services, accounting for about 45% of their tax revenue, compared to the Mashreq countries, where indirect taxes constitute approximately 55% (see table below).[2]

	Tax revenues as a percentage of GDP	Indirect taxes on goods and services as a percentage of total tax revenue
Oil-importing Mashreq countries	14.5%	54.5%
Oil-importing Maghreb countries	26.0%	44.87%
Oil-exporting countries	1.5%	22.48%
Total region	**10.9%**	**39.23%**
Source: Claire Burkhardt and Mehmet Tosun, "Taxation in MENA: Composition, Trends and Policy Options", The Economic Research Forum, 2020		

Despite significant variations among the three groups of countries, a common factor is the almost complete absence of property taxes in their tax systems.[3] This study focuses on the region's net oil-importing countries and explores the potential of property taxation to improve the deteriorating welfare and protection situation in these countries. We examine two models from the Levant – Lebanon and Jordan – and one from the Maghreb – Morocco.[4] Lebanon is characterized by a sharp decline in tax collection due to political and economic crises,[5] while Jordan maintains relatively stable tax collection at 16-18% of GDP. Morocco, on the other hand, has one of the highest tax collections in the region, exceeding 20% of its GDP.[6]

This study explores the opportunities provided by real estate taxes in financing comprehensive social protection programs. We focus on real estate taxes for several reasons. First, as mentioned earlier, the current yield from all types of real estate taxes in the region is very low, indicating significant potential for increased revenue.

Second, taxes on immovable assets are relatively easy to implement in the region due to low administrative efficiency, limited resources, and widespread economic fragility. When imposing a new tax, authorities typically face three main challenges: administrative, economic, and political. Administrative challenges involve the availability of expertise, as well as necessary human and technological resources to implement the tax effectively. It is also crucial to ensure cost efficiency so that administrative expenses do not exceed or come close to the size of the tax collected. Real estate taxes are less susceptible to evasion compared to income and profit taxes, as real estate cannot be hidden. This is important in countries where tax authorities lack the resources and technical know-how that large multinational corporations use to minimize their tax liabilities. Additionally, real estate taxes can be implemented immediately, as they do not require extensive administrative preparation, except for improving the quality of real estate databases.

There are also economic challenges associated with imposing a new tax. This raises key questions including: Will it affect consumption and public demand as consumption taxes do? Will it increase or decrease wage and wealth disparities? Could it lead to capital flight? Will it give special incentives to some sectors over others? From an economic perspective, real estate taxes are considered fair tax because they do not increase the tax burden on lower- and middle-income groups, who are already heavily taxed and burdened through indirect and wage taxes. Additionally, real estate taxes are not viewed as a deterrent to job-creating investment. Among taxes targeting the rich, these taxes have the least negative spillover effects – both actual and perceived – on lower-income groups.

Moreover, real estate-related taxes help regulate the real estate market and limit rampant speculation. This is particularly beneficial in countries suffering from inflation and lacking a strong productive sector to attract capital. By taxing real estate, surplus capital is prevented from being absorbed into speculative real estate ventures in a value-preserving manner. Instead, such taxes can direct capital toward productive, job-creating activities, fostering economic growth and stability.

When it comes to political challenges, resistance from certain social groups to paying a new tax is common, and examples of this are endless. We saw in Lebanon how the imposition of a popular tax on WhatsApp in 2019 was the spark that ignited the 17 October Revolution and served as a Trojan horse that carried all the accumulated economic, political, and social grievances in Lebanon. Regarding taxation of the economic elite, Egypt has been postponing a capital gains tax on stock trading due to objections from stock market investors and the stock index plummeting every time talk of imposing it surfaced.[7] Although real estate taxes face political challenges like any other tax, this volume argues that they are among the easiest to administer and have the least negative economic impact.
This volume argues that such taxes have positive economic effects for the vast majority of citizens, such as lowering rents and real estate prices and directing capital to productive, job-creating activities. Therefore, any delay in enacting real estate taxes in the region can only be attributed to the significant influence of those subject to the tax and their unwillingness to bear its cost, despite its considerable social benefits. Beyond the tax gap, MENA countries also face significant social protection gaps in housing, health, and social insurance, particularly for unorganized labor, which is highly prevalent in our region.

This volume attempts to demonstrate that there is a significant opportunity to finance comprehensive social protection programs through the taxation of real estate wealth. It includes three case studies that explore how property taxes can finance comprehensive housing programs in Lebanon, fund a large part of a comprehensive social protection scheme in Morocco, and cover half the value of voluntary insurance contributions for unorganized and uninsured workers in Jordan. In her paper, Studio Public Works urban researcher Christina Abou Rouphaël demonstrates that there is ample room in Lebanon to increase property tax revenues and regulate the chaotic real estate market, where real estate speculation at the expense of the right to housing is so rampant that the vacancy rate is around 23%. The proposed tax has a dual purpose: first, to regulate the real estate market to provide affordable housing to as many people as possible, and to collect taxes to be used to ensure the universal right to housing enshrined in the International Covenant on Economic, Social and Political Rights (ICESCR). Abou Rouphaël shows how just one of several real estate-related taxes could generate $100 million a year if applied to vacant medium and luxury housing. This amount is sufficient to provide rental subsidies for 50,000 families annually, offer seed capital to establish 25 housing cooperatives each year benefiting 350 families and build 1,000 homes for 1,000 families annually on state-owned land. She also discusses other types of taxes, such as a tax on real estate profits, which could generate a billion dollars annually. If implemented, this could extend the right to housing to all poor families in Lebanon, achieving the desired and legally stipulated comprehensiveness. This does not include the indirect impact of such measures, which could reduce rents and real estate prices, as Abou Rouphaël explains in her paper. This type of protection is pivotal, and perhaps the most important, in the Lebanese context, where the housing crisis and prices have worsened to the point that average rents exceeded average wages – even though housing costs should ideally be around 30% of average wages.

In his paper on Morocco, economics and development professor Abdelhak Kamal explains how targeting the highest-value properties in Morocco could provide one-sixth of the total annual cost of all planned social protection programs in Morocco, or one-quarter of the value of solidarity funding from non-contributors. Drawing inspiration from the French experience – which went beyond labor contributions to fund social security programs by using property taxes as a sustainable and stable source of funding – he argues that such a tax would reduce asset inequality and speculation without affecting labor incomes or labor-intensive productive investments. This is because it would not increase insurance costs for employers and indirectly penalize them for creating jobs. Finally, the paper shows that targeting major wealth through real estate, as an indirect proxy indicator of wealth, is an effective solution in countries in our region that lack reliable income and wealth data.

Returning to the Levant, Ahmed Awad, Director of the Phoenix Center for Economic and Information Studies, urges us to focus on taxing empty apartments, which amount to more than 18% of the total housing units in Jordan – representing more than 400,000 housing units. This percentage rises to 23% in the capital, Amman. In that case, imposing a graduated tax averaging only 50 dinars per month on less than half of the vacant housing units could generate 116 million dinars annually, enough to cover half the cost of social security contributions for more than 300,000 unorganized laborers. Awad also reminds us that 59% of workers in Jordan are not covered by any social protection system, making such a tax an urgent social necessity whose cost pales in comparison to its critical social importance.

In short, property taxes appear to be an effective solution to many social protection issues in our region. However, given the severe shortfall in funding for social protection programs and social spending, the failure to explore these opportunities so far raises doubts about the willingness to sacrifice the role of the real estate sector as a means of absorbing surplus capital, as a store of value in the face of high inflation for the higher income classes, and as a tool to achieve economic growth amid the decline of industry and agriculture — rather than to provide adequate and affordable housing and secure the universal legal right to housing for the entire population.

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How Can Land and Property Taxes Secure Affordable Housing?

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This paper was developed as part of research conducted by Public Works Studio for the project "Toward a Comprehensive Right to Housing Law."

اشغال عامة
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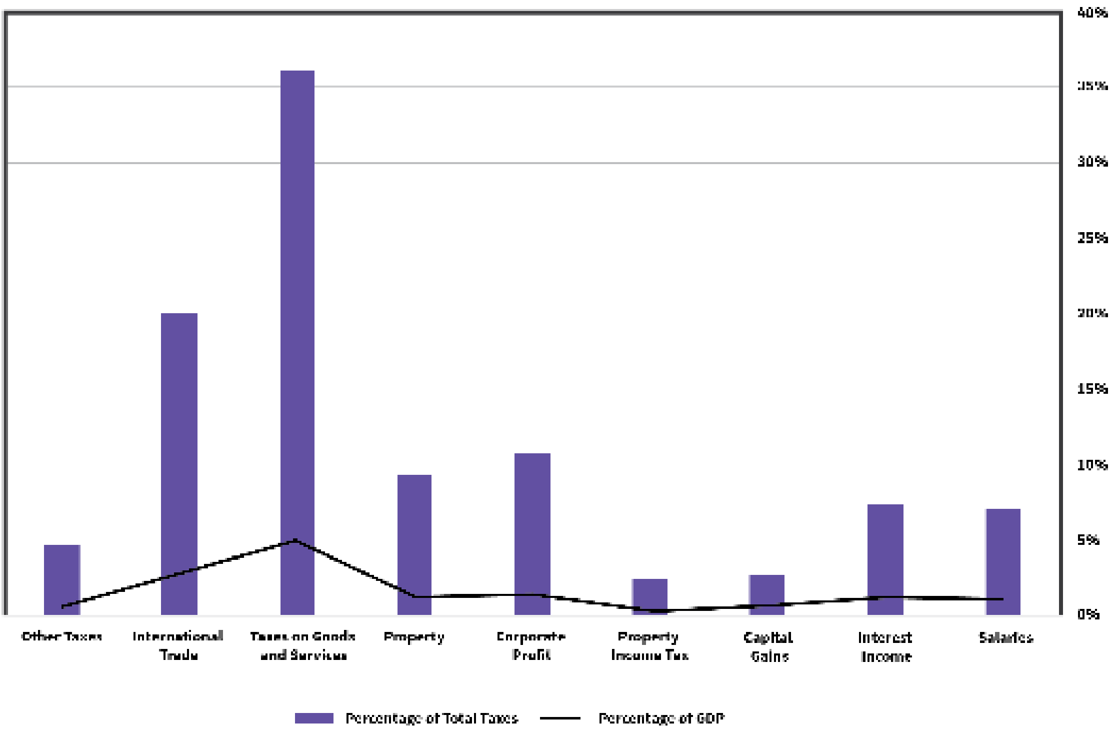
The unequal and fragmented tax system in Lebanon demonstrates the absence of the concept of tax justice and any social dimension in state policies and favors wealth and property accumulators through tax policies related to land and property.[1] This has been the result of the real estate sector enjoying absolute protection as one of the "successful" sectors in the rentier national economy under the prevailing approach of commodification of land. Since the founding of the Lebanese state, there has been an absolute refusal to impose any tax on real estate or real estate profits as immigrants have placed their wealth accumulated abroad in Lebanon,[2] with around 65% of foreign remittances in Lebanon over the past twenty years being used for real estate speculation.[3] The authorities adopted interventions that facilitated land trade and real estate speculation and encouraged the conversion of real estate into financial assets by reducing taxes and fees of all kinds. This has led to the accumulation of capital that could have been directed to more productive and sustainable sectors on the one hand, and negatively impacting access to housing as land prices increased on the other. It was clear that the choices the state has always made have been to ignore the social value of housing and consider it the responsibility of individuals, placing it under the control of unrestricted speculative mechanisms. These policies are still in place today, despite the need for radical changes to rebuild the collapsed economy.

Therefore, there is a need to reform Lebanon's land and property tax system to curb real estate speculation and confront the commodification of land as a prerequisite for addressing the housing crisis in the country. Property taxes are an appropriate tool that can generate high revenues to ensure social protection in its various forms. In our research, we relied mainly on reviewing a wide range of research and literature related to the various aspects of housing, as well as available research, figures, and estimates that dealt with tax policies in Lebanon in general, and real estate taxes in particular. Through this paper, we hope to highlight how real estate tax policy choices have a direct impact on people's enjoyment of their basic rights, most notably the right to housing.

Land and property taxes in Lebanon: Reality and alternatives

Lebanon's tax system is generally found to be inefficient. The fragmentation of the tax system, by imposing a separate tax on each source of income, results in a very low tax revenue ratio.[4] The system relies mainly on regressive indirect taxes,[5] which fall disproportionately on the poorest people, who spend a larger share of their income on consumption.[6]

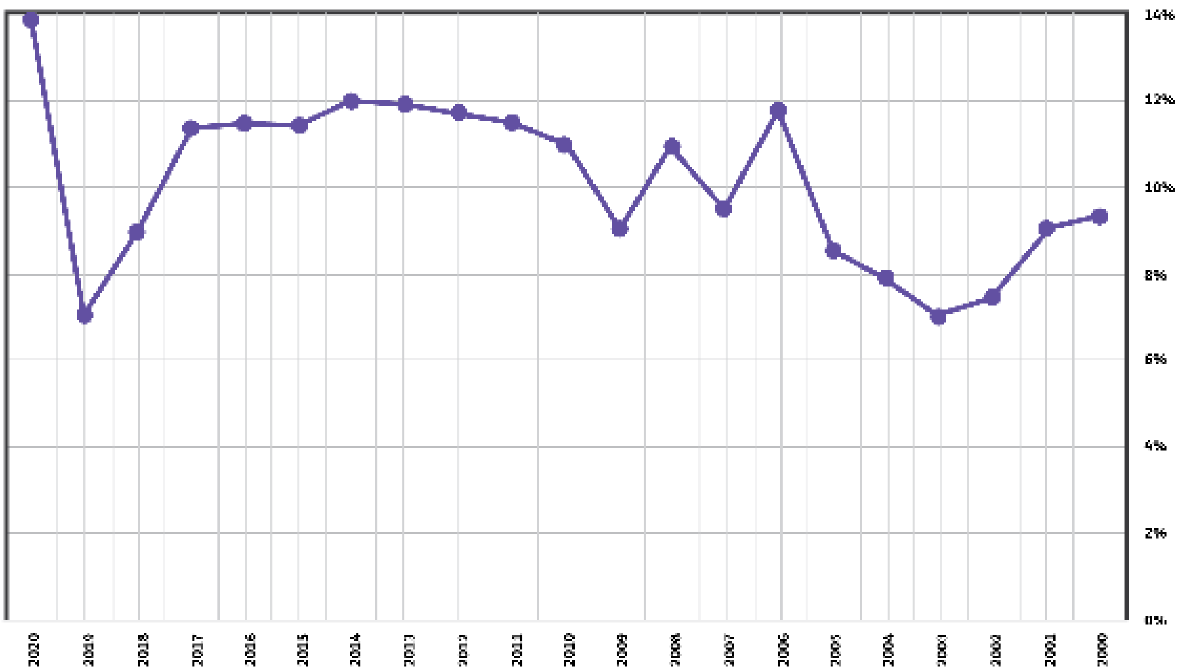
Chart 1: Relative size of different types of taxes in Lebanon, 2015



Source: Arab Reform Initiative, What tax policies should be adopted in Lebanon? Lessons from the past for future challenges.

By examining real estate taxes, it is clear that revenues from land and property taxes have been very limited over the past three decades, despite the enormous profits made in the real estate sector. Real estate taxes have not exceeded 12% of total tax revenues and constitute less than 2% of GDP.

Chart 2: Property tax as a proportion of total tax revenue

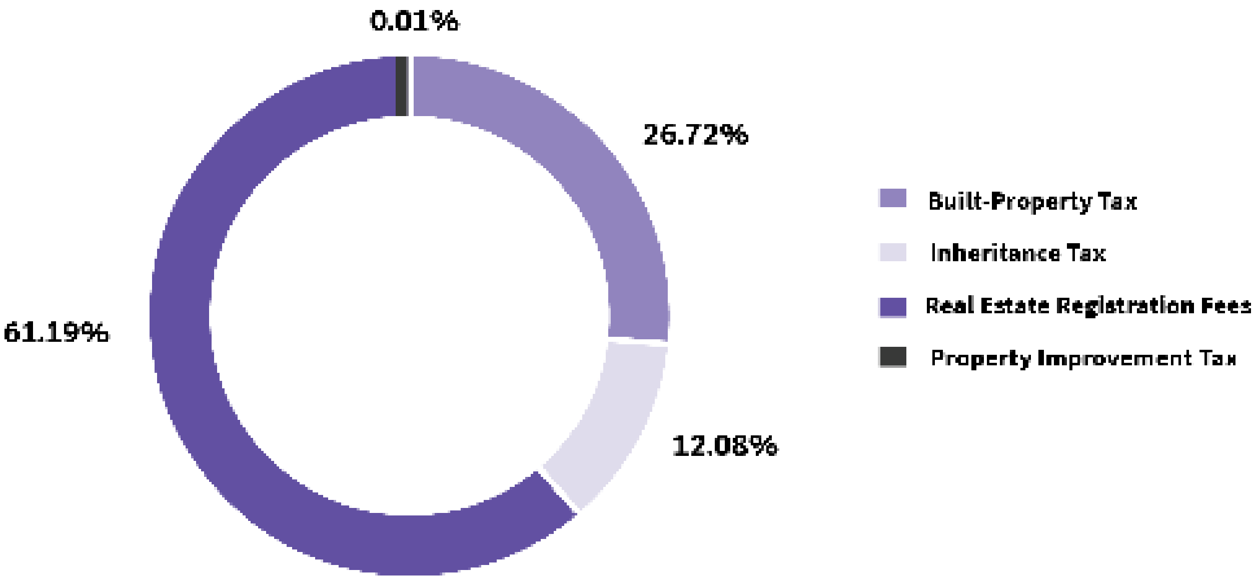


Source: Beirut Urban Lab and the Lincoln Institute of Land Policy, Dialogues on Land Policy in Lebanon, Final Report: Expanding the Concept of Tax Improvement in Lebanon.

In general, tax policy is characterized by low taxes on property and land, limited to certain fees and taxes imposed on the transfer of land through sale or inheritance (inheritance inventory fees and property registration procedures),[7] or on profits from the occupancy of a residential apartment and/or land (municipal tax and built property tax), or if a public project significantly increases the value of the land (improvement tax).

In 2017, a tax on profits from real estate sales was introduced, considered an important tax reform at the time. However, in the 2024 draft budget,[8] the rate of this tax on real estate sales by individuals was significantly reduced from 15% to 1% until the end of 2026. The latest budget also showed that the total revenue to be collected by the state from direct taxes on wealth, property, and income accounts for only 9% of total revenues,[9] while the property tax (without registration fees) accounts for only 0.34% of total budget revenues.

Chart 3: Revenue from gross property tax



Source: Beirut Urban Lab and the Lincoln Institute of Land Policy, Dialogues on Land Policy in Lebanon, Final Report: Expanding the Concept of Tax Improvement in Lebanon.

Reforming the land and property tax system to curb real estate speculation and contribute to more affordable housing could include the following essential proposals:- **Taxes on built property**: Currently, the tax rates on built property revenues in Lebanon are progressive, ranging from 4% to 14% but they are below the tax rates applied to salaries and wages. Pending the integration of wage and salary income into a unified income tax system, there is a need to cumulatively converge these tax rates. This means applying progressive taxation to the total portfolio of real estate owned by an individual.[10] Land and property should be taxed at levels comparable to wage income – up to 25% – to recognize the value of labor as opposed to the unproductive rents generated by owning real estate assets.[11]

Moreover, all exemptions from built property taxes – in addition to municipal fees and allowances – that benefit religious endowments, who are among the largest real estate owners,[12] should be abolished. All built properties, regardless of occupancy status, should be taxed according to a progressive scale that takes into account financial hardship.[13] This means that vacant properties should be subject to taxation to incentivize their use in productive activities. By maintaining these exemptions, local and central authorities incur significant revenue losses.

According to the Beirut Urban Lab,[14] if 20% of housing units within Beirut's administrative area are vacant and based on 2020 tax rates, a quick estimate of the Beirut Municipality's annual losses due to this exemption exceeds $33 million. As for the Ministry of Finance, its annual losses amount to $100 million in taxes in administrative Beirut alone. The current tax system also facilitates the over-reporting of vacancies, leading to tax evasion. A comparison of Beirut Urban Lab's surveys with numbers reported by the Beirut Municipality reflects an overstatement in public records, with more than 50% of vacant units over-reported. A simple estimate of the loss of tax revenue, given this over-reporting, results in a loss of $86 million in revenue for Beirut Municipality and an additional $260 million in losses to the Ministry of Finance from vacant units alone.[15]

The International Monetary Fund (IMF) notes in a section of its recent "Technical Assistance Report on Putting Tax Policy Back on Track" that eliminating this tax exemption on vacant apartments provides additional revenue to the state and municipalities by 0.3% of GDP.[16]

- **Real Estate Profits Tax**: A capital gains tax which is technically a tax on land value gains, can be levied when a property is sold based on the difference between the purchase and sale price of the property. The tax rate may vary depending on the length of time the property has been held.

In Lebanon, since 2017, this tax has been applied at a rate of 15% of the profit from property disposal.[17] However, capital gains are exempt from taxation when a property is sold under the guise of transferring shares in a company established as a special purpose vehicle to hold the property, leading to significant tax evasion. The 2024 budget reduces this tax to the point of practically eliminating it (from 15 to 1%) until the end of 2026.

Therefore, when an increase in land value is realized through real estate transactions, certain deductions should be made before calculating the taxable capital gain.[18] These deductions include the cost of construction – based on a standard rate per square meter for built properties – and adjustments to the sale and purchase prices to account for inflation between the two dates. The resulting capital gain should be taxed at a rate of 25% (equivalent to the highest personal income tax bracket)[19] on the portion above a certain threshold.[20]

According to former Minister Charbel Nahas,[21] the annual revenue from this tax in 2014, if implemented, was estimated to be between 1,200 and 2,000 billion Lebanese pounds, or between $800 and $1,300 million annually.[22]

- Vacancy tax: According to research by the Beirut Urban Lab, vacancy rates are very high throughout the city of Beirut, reaching 20%. This is known as excessive vacancy, especially for luxury apartments, where vacancy rates exceed 31%, and high-priced apartments 22%.[23] Similarly, according to IMF estimates, vacant apartments exceeded 23% of housing units built between 1996 and 2018.[24] These apartments include units that developers are reluctant to sell and apartments purchased as long-term investments by expatriates and wealthy Lebanese residents. This vacancy is reinforced by a tax system that exempts empty apartments from municipal and property taxes.[25]

Thus, to reduce the number of vacant apartments, a vacancy tax should be implemented as in several parts of the world, such as Canada (1% annual tax), and Spain in the Comprehensive Law on the Right to Housing where a real estate tax surcharge has been applied to homes that have been vacant for at least two years. This tax contributes to curbing real estate speculation by giving an incentive to speculators to sell their properties or rent them out, which contributes to providing more units for rent, in addition to stimulating the market and lowering prices due to increased supply. Implementing taxes on holding vacant buildings or units, or on the quick realization of capital gains would increase the cost of holding properties over time. This would inevitably discourage speculation and limit the rise in real estate prices.[26] A recent Beirut Urban Lab study of 7,691 apartments in Beirut indicates that 90% of vacant apartments are usable and structurally sound, meaning they can be easily reintroduced to the market.[27]

The value of the stock of vacant luxury and mid-range apartments is estimated at $10 billion.[28] These properties could be subjected to a progressive tax on their value, rising annually from 1% to 5%.[29] In simplified terms, if a 1% tax is applied to the value of vacant apartments, based on available data, the vacancy tax revenue is estimated at a minimum of $100 million per year. Beirut Madinati estimates that the taxes that owners of empty apartments should pay is $200 million per year.[30]

- Other measures: Among other tax measures that can be implemented are the inheritance tax and transfer fees.[31] Under these laws, all movable and immovable property (such as buildings and land) transferred to others by gift, will, inheritance, endowment, or any other means without compensation equal to its real value is subject to inheritance tax. While Lebanon is an exception in the region for enforcing this tax, it is not effectively collected, necessitating a comprehensive review of the transfer tax law to address loopholes that allow low rates to be paid.[32]

We also highlight the improvement tax, which is currently limited to public projects requiring eminent domain. However, the actual application of this tax is not promising.[33] The concept of the improvement tax should be expanded beyond eminent domain, potentially requiring an improvement tax code that details the assessment, application, and collection processes in an integrated and equitable manner.[34] Between 2002 and 2020, state expenditures on infrastructure amounted to $1,833 billion, while revenue from the improvement tax amounted to only $7 million. It accounted for just 0.01% of total property tax revenue in 2019.[35] The average projected revenue for the same period was $130 million (about $6.5 million per year over 20 years).[36]

On the other hand, since there is a significant gap between existing data and actual land valuations, a standardized and transparent valuation system is essential. This system should be continuously updated by public bodies and made available to the public to operate as a basis for tax collection. Digitization can also be a useful and effective means of implementing property taxes. By using electronic maps, authorities can identify unregistered properties to update cadastral data, and using the analysis of real estate transaction data to determine the fair value of properties.[37]

How can land and property taxes contribute to funding necessary housing programs?

From the above, it is evident that Lebanon's tax system, including land and property taxes, is unfair and inefficient. The low tax rates on land and property have contributed to increased real estate speculation and prevented access to affordable housing. Therefore, there is an urgent need for tax measures and arrangements, as outlined above, that can influence economic decisions and social policies. These measures should particularly focus on curbing real estate speculation, incentivizing more sustainable land use, and improving equity in land distribution. Additionally, such reforms can help fund a comprehensive plan or housing program that contributes to more affordable housing.[38] These issues are discussed in more detail below. In this regard, the Council of Ministers recently approved the first National Social Protection Strategy[39] as part of Lebanon's commitment to the obligations made when signing the 3RRF with the international community. The strategy provides a comprehensive vision with five pillars. Concerning the right to adequate housing, social assistance policies under Strategic Direction 3 – "Linking social assistance to complementary services and programs that address multidimensional vulnerabilities" – include Initiative 3.4, which addresses access to affordable housing.

This initiative highlighted the importance of "ensuring effective linkages between social assistance and access to affordable and inclusive housing." In the short term, the most pressing housing needs should be addressed through various forms of assistance such as rental assistance/vouchers, social housing projects, housing cooperatives, etc. In the medium to long term, the plan states that a comprehensive housing policy that regulates the entire housing market should be adopted to best respond to housing needs.

Based on this strategy and its recommendations, we present the following suggestions and programs that can be implemented in the short term. It is essential to complete work on a comprehensive policy for the right to adequate housing,[40] of which reforming the tax system is an integral part. For this paper, we have chosen to focus on housing proposals and programs that can be implemented using the estimated revenues of the vacancy tax, which are estimated to amount to about $100 million annually.

- **Providing financial assistance to needy tenants as a rent subsidy**:[41] Considering the lack of an accurate statistical database in Lebanon, figures indicate that rents in the capital Beirut, and even in the suburbs start at a minimum of $100 and generally average between $250 and $300.[42] According to City of Tenants, the average rent in the capital Beirut is $267.[43] Housing-related expenses amount to an additional $75 per month.[44] Rent and housing services account for 85% of the total income of households living in Beirut, reaching 100% in the most vulnerable neighborhoods.[45] This places a very heavy burden on the poorest classes in terms of housing costs. The average rent ($250) is more than five times the maximum acceptable housing expenditure of 30%[46] of Lebanon's average wage of $139 (i.e. $41.7).[47]

If we allocate $30 million per year in monthly rental subsidies or vouchers to support the most vulnerable and low-income families at $50 per family, about 50,000 families could be supported annually in their housing expenses.

- **Supporting the creation of housing cooperatives**: Housing cooperatives have emerged as a key housing strategy, especially in contexts similar to Lebanon, where land is commoditized, and public social protection policies are weakened. Limited Equity Housing Cooperatives (LEHCs) are a model for providing affordable housing based on collective, non-individualized tenure. The importance of this model is emphasized by the benefits it offers to members, providing a number of affordable housing units over the long term. Cooperatives provide housing stability and protect against evictions, as payment within a cooperative is controlled and cannot be arbitrarily increased, ensuring long-term housing stability for cooperative members. One of the main challenges facing this model is securing the initial capital. To incentivize the creation of such cooperatives, access to soft loans could be facilitated. According to a 2017 study by the Beirut Urban Lab, which included a case study of a building located within the Beirut Municipal District, consisting of 14 residential units of about 60 square meters each, and two shops on the ground floor, the approximate amount to be borrowed to finance the purchase and conversion of the building into a housing cooperative was $1,125,000.[48] Thus, $30 million could help establish about 25 housing cooperatives in buildings similar to the one mentioned in the study.

- **Build public housing units for affordable rent on available state land**: It is also important to build, maintain, and increase the stock of public housing to provide housing for those in need of support and to provide healthy and adequate living conditions for the population. Building public housing units increases the supply of affordable social rental housing.

According to the Ministry of Finance's records of state-owned real estate, there are about 650 built and unbuilt properties owned by the state.[49] These properties are registered under the names of ministries, departments, or directorates concerned with housing, and are now in the custody of the Public Housing Corporation (PHC). The unbuilt properties owned by state housing institutions could be part of a strategy to address the current housing crisis and provide affordable housing. Utilizing these lands to build housing projects would contribute to reducing the cost of these projects by eliminating the cost of land acquisition.

Considering that the cost of construction per square meter, excluding the cost of land, is about $500 in Lebanon, 500 housing units of 70 square meters (one bedroom) and 500 housing units of 90 square meters (two bedrooms), i.e. about 1,000 housing units per year would cost $40 million.

The above figures indicate that $100 million would provide housing support to more than 51,000 families annually as a result of the vacancy tax alone, whose revenues are estimated at $100 million. If the real estate profits tax is added, whose revenues could reach one billion dollars, according to Charbel Nahas' estimates mentioned above, this means that housing support would reach more than half a million Lebanese families, which is close to the number of poor families in Lebanon, thus confirming the comprehensiveness of this form of social protection.

Conclusion

The approaches and suggestions we have presented remain preliminary, and we do not claim that they are the only solutions. However, they certainly require a more detailed and accurate study, along with a comprehensive database on land in Lebanon, to determine the appropriate tax rates, conditions, and exceptions (if any), as well as the time frame for their implementation (short, medium or long term), provided they are part of a comprehensive socio-economic vision.

The most prominent challenge to its implementation, regardless of any technical or administrative challenges that can be overcome,[50] remains linked to the political decisions and the influential parties controlling them at the legislative and executive levels. These parties have historically favored personal interests over the public interest, and have continued to allow wealthy groups, landowners, and speculators to accumulate wealth and continue practices that incentivize the commercial and commodified approach to land. These influential actors – represented by a layer of political, business, and banking elites closely linked to the real estate lobby and barely distinguishable from it[51] – often use the excuse of protecting individual property

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1 According to economic journalist Mohammad Zbib: "Lebanon is one of the few countries in the world whose emergence as a political entity was not accompanied by so-called land and agrarian reform. This has influenced the ambiguity between the concepts of land and real estate. Land is the place where we live and eat, where we produce oxygen, where there are water and natural resources. Viewing land as the land of "habitat" for all - a term used by the United Nations, by the way - implies that we should not approach it for a moment as private property, as any use or exploitation of it has direct repercussions not on the "owner" but on the entire community. Real estate, on the other hand, is an area of land with a negotiable title deed, which you can sell, buy, build on, or leave as wasteland. There is no land tax in Lebanon, and adopting the label "property tax" could lead to confusion and be mistaken for a "built property tax". Therefore, since we do not consider land to be real estate, we have chosen to use the term "land and property taxes" to refer to taxes on land and property built on it.

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What Role for Taxation in the Universalization of Social Protection in Morocco?

Abdelhak Kamal

Introduction

Morocco is implementing a comprehensive reform to extend social protection to its citizens. The reform, which aims to ensure universal social coverage, is taking place in a context characterized by the exacerbation of inequalities and poverty. Despite the significant reduction in extreme monetary poverty from 15.3% in 2001 to 4.8% in 2014, the World Bank has indicated that the economic and social crisis caused by COVID-19, the climate crisis, and the Ukraine war has increased vulnerability to poverty. The number of those "vulnerable to poverty" and/or "poor" people increased from 17.1% in 2019 to 19.87% of the population in 2020.[1] These effects are particularly devastating for those in undeclared self-employment and informal employment in small businesses, which constitute the majority of workers in the economy.

The Moroccan context is also characterized by the prevalence of informality and precarity. In Morocco, the latest results of the Haut Commissariat au Plan (HCP) Employment Satellite Account[2] indicate that informal employment represents 67.6% of total employment, 36.3% of non-agricultural employment, and 97% of agricultural employment.[3] In 2018, approximately 60% of the working population was not covered by a pension plan, 38% of the Moroccan population lacked medical coverage, and 66.9% were not beneficiaries of any social security system. The participation of women in the labor market is low and is concentrated in low-paying activities. The Female Labor Force Participation Rate did not exceed 21.8% in 2018, of which rural women constitute 82%. Women represent only 17% of National Security Fund retirees, receiving an average retirement pension of 1,909 dirhams, compared to 1,974 for men. Furthermore, women are overrepresented in precarious and unpaid work.[4]

The project to universalize social protection is structured around four main pillars:

1. **Expansion of Compulsory Health Insurance, or Assurance Maladie Obligatoire, (AMO), (AMO):** the objective was to add 22 million beneficiaries during the 2021-2022 period, to include vulnerable categories benefiting from the Medical Assistance Scheme, or Régime d'Assistance Médicale (RAMED),[5] professionals, and self-employed workers. The estimated cost is 10 billion Dirhams annually, contributing to the program's total cost of 30 billion dirhams.
2. **Expansion of family allowances** for 7 million children of school age between 2023 and 2024 covering child-related risks and contingencies costing 25 billion dirhams, gradually increasing to 29 billion dirhams.
3. **Expansion of pension schemes to include** around 5 million self-employed professionals and informal workers not covered by a pension scheme by 2025.
4. **Expansion of unemployment benefits** in 2025 to provide financial support in the event of unemployment.

Social security systems have hitherto been characterized by fragmentation, with the majority of financing derived from labor income. The systems have also been primarily dependent on formal private-sector employees and civil servants. Consequently, a significant proportion of the population is deprived of social protection as the economy is dominated by small and micro-enterprises.

The heterogeneous structure of the Moroccan economy, coupled with the prevalence of the informal sector, renders social protection reform a complex yet indispensable endeavor. To expand the scope of social protection beyond labor income, it is necessary to mobilize substantial resources and implement bold tax reform.

In this context, taxation plays a pivotal role in ensuring the availability of stable resources to support this extensive social project. However, the establishment of such a system necessitates an in-depth analysis of existing and potential sources of financing, as well as a reflection on the balance between the contributions of the state, individuals, and businesses. The challenge lies in establishing a fiscal equilibrium that enables the effective financing of social protection while ensuring a fair distribution of tax burdens, thus avoiding undue pressure on the middle classes.

The first part of this paper will focus on financing the universalization of social protection. It will examine the adequacy of various types of contributions in relation to the financial needs of this vast project. The second part will explore the tax options available to support the project. Taking into account the difficult fiscal context, it will propose recommendations for taxation reforms in line with social justice and solidarity principles, while ensuring universal and sustainable coverage of social benefits.

Financing social protection in Morocco: sustainability and fiscal challenges

In Morocco, financing social security is regulated by the 2021 framework law on social protection. It delineates the sources of financing, yet it does not stipulate the precise proportions of this financing. Despite establishing some principles and financing mechanisms, this framework law does not include detailed revenue forecasts or expenditure objectives. In essence, it outlines two principal financing mechanisms:

1. Beneficiary contribution: This encompasses contributions from salaried and self-employed workers, as well as employers, but also a proportion of workers in the informal sector whose household social index[6] exceeds a certain threshold.

2. If individuals are unable to bear the financial burden of contributions, a national solidarity system is established to provide support. The total financial resources required for the universal expansion of social protection in Morocco are estimated to be approximately 50 billion dirhams annually, including an estimated 35 billion dirhams in 2024 and 40 billion dirhams in 2026 for the solidarity non-contributory component. The availability and accessibility of comprehensive data, disaggregated by source of financing, pertaining to the expansion of social security in Morocco is severely constrained. At the time of writing, there was no budget line for the entire social security sector, and the figures presented by the government are often inconsistent. Table 1 provides an overview of the financing structure.

Table 1: Non-contributory Financing Structure of Universal Social Security in Morocco

Funding pillar	Estimated amount (in billions of dirhams)	Share of total%	Description
state budget contributions*	24.2	54%	Includes 100 social programs financed by the state budget (15 billion dirhams) and the Social Cohesion Fund (9.2 billion dirhams).
hypothecated/earmarke d taxation**	11	24%	Includes social and solidarity taxes on income and profits (7 billion dirhams), taxes on insurance contracts, domestic consumption tax (TIC) on various products, and contributions on assets held abroad (4 billion dirhams).
Reform of the Compensation Fund	3	22%	Financial savings from the gradual reduction of subsidies on certain basic products.
	45.2	100%	

The author's calculations based on the statements of the Prime Minister, Aziz Akhannouch, and the Minister Delegate in charge of the Budget, Faouzi Lekjaa, regarding the means and methods of financing the universalization of social protection to the Chambre des Représentants and Chambre des Conseillers. For the full statement, see https://www.cg.gov.ma/ar/node/10965.

**State resources: This category encompasses the general budget allocations for social programs and specific funds like the Social Cohesion Fund. These resources are derived from the overall state budget and are then assigned earmarked for social protection purposes.*

*** hypothecated/earmarked taxation: This refers to specific taxes levied for social protection purposes. These taxes are hypothecated or earmarked, meaning they are collected specifically to fund social security and solidarity initiatives.*

Employer and employee contribution is a traditional source of financing social security. Nevertheless, this source of revenue is constrained by the level of formal employment and the prevailing contribution rates. For those engaged in informal work or self-employment, specific contribution mechanisms are developed through the unified social registry.[7]

The solidarity part, which mainly concerns vulnerable populations, requires more substantial and stable funding. These financing needs require diversification and optimization of sources to not only secure the necessary financing but also to promote justice and social balance. A critical analysis of the existing financing structure raises questions about its sustainability, transparency, and fairness. The overall budget is heavily reliant on the state budget and the rationalization of previous social programs. In 2021, approximately 23 billion dirhams were allocated to social protection. Furthermore, hypothecated/earmarked taxation and structural reforms, such as that of the Compensation Fund, also play a pivotal role in this financing.

State resources, together with those of the Social Cohesion Fund, represent a significant proportion of total financing (54%). Nevertheless, this category is predominantly financed through taxation, the specifics of which are frequently opaque. The reliance on unspecified state resources gives rise to questions regarding the stability and predictability of long-term funding. The primary challenges include the rapid expansion of social protection expenditure, which is growing at a faster rate than the available resources.

Hypothecated tax revenue, representing 24% of total financing, is derived primarily from social and solidarity fees on income and profits, as well as taxes on insurance contracts, the domestic consumption tax (TIC), and contributions on assets held abroad. While these sources are of great importance, they are provisional and rely on temporary mechanisms. It is recommended that social security taxation be based on more sustainable and equitable sources of revenue.

The Social Cohesion Support Fund, established by the 2012 finance law, was initially designed to contribute to the financing of social programs. In 2021, the Fund underwent a name change, becoming the "Social Protection and Social Cohesion Support Fund." This was accompanied by an increase in its resources, with new revenue being allocated to it.[8] It is important to note that in a report from the Court of Auditors, the financial sustainability of this Fund was called into question due to irregular revenues – such as compulsory and temporary contributions – and a continuously growing number of beneficiaries.[9]

Furthermore, the current structure appears to lack distributive justice. The Moroccan tax system places a significant burden on the workforce through social contributions. The solidarity tax was introduced in the 2021 finance law and is scheduled to remain in effect until 2025. Its purpose is to assist in financing the expansion of the AMO to informal workers. The tax applies to individuals who receive a net income equal to or greater than 240,000 dirhams per year at a rate of 1.5% of net income and to companies at a progressive rate ranging from 1.5% to 3.5% according to their profit brackets.[10] The aforementioned contribution, established by the *Finance Bill 2021* (*Projet de Loi de Finances* "PLF", 2021), is projected to generate 5 billion dirhams for the support of the Social Protection and Social Cohesion Fund. The taxation of labor can act as a disincentive to formal employment, particularly affecting those in the middle classes. The latter are frequently regarded as the primary source of fiscal revenue and could therefore be subjected to undue pressure. Conversely, those with greater financial resources, who frequently benefit from tax loopholes and avoidance opportunities, should contribute in a manner that is commensurate with their income. A more equitable solution would be to implement higher taxation on capital. Such an approach would result in a more equitable distribution of wealth and a reduction in economic disparities. In 1991, France introduced the Generalized Social Contribution (CSG) to diversify the sources of financing, which had previously been based exclusively on social contributions deducted from wages. This contribution encompasses not only income derived from employment but also income derived from property and investments.[11] A comparable tax could be implemented in Morocco, with a focus on income derived from real estate properties. The CSG enabled the financing burden to be distributed more widely, extending beyond the scope of salaries alone. Currently, only 63% of revenue from social insurance schemes is derived from social contributions, while 30% is financed by taxes, of which 16% is derived from the CSG.[12]

Despite the political will expressed in the framework law, certain measures present significant challenges in their implementation, prominent among which is the progressive reduction of subsidies for basic products, and the abandonment of the RAMED medical assistance plan. These challenges may result in a reduction in the number of beneficiaries of social programs. The subsidy reduction, which is projected to generate fiscal savings of 3 billion dirhams in 2024, then 8 billion dirhams in 2026, represents a strategic measure aimed at redirecting product subsidy toward integrated social protection mechanisms and the consolidation of a unified social registry, particularly toward the financing of health costs. However, this remains insufficient. A reduction in subsidies on basic products could have a detrimental impact on the most vulnerable populations. It is essential to adopt a balanced approach to ensure that economic reforms do not harm the well-being of the most vulnerable citizens. In the absence of a robust methodology for identifying poverty indicators, financing of social policies may lose its efficacy and yield unintended consequences.

These issues raise crucial questions and justify a review of the financing of social protection to better respond to current challenges. It is crucial that financing is approached with a social justice perspective, avoiding partial measures that could protect certain categories while impoverishing others. A balanced and equitable approach will strengthen the sustainability and effectiveness of the social protection system.

Toward a fair and sustainable social protection system

Morocco has relatively high tax revenues, which increased from 19.4% of GDP in 2015 to 21.1% in 2022.[13] The discussions held at the Third Conference on Taxation in Morocco in 2019 emphasized the necessity for a more equitable tax system, including a rebalancing of taxation between labor and capital, the implementation of measures to combat tax evasion, and the pursuit of greater fairness in the tax system itself.[14] These measures were identified as key steps in reducing inequalities.

The distribution of national income between labor wages and capital profits in Morocco is not well documented. However, the available data indicate that the share of wages in national income is relatively low. Employee remuneration accounted for 34.8% of value added in 2017, compared with 63.8% for return on capital.[15] The Moroccan labor market is characterized by high unemployment, informality, and low wages.

Morocco levies taxes on both labor income and capital. Nevertheless, the prevailing tax structure may favor capital income. The tax base is relatively narrow, with middle-class citizens often contributing the most. Labor wages are subject to progressive income tax with rates ranging from 0% to 38% depending on the income bracket, while capital income (such as dividends, capital gains, and interest) often benefits from more favorable tax rates to support investment and economic activity. For example, dividends may be subject to a flat rate of 15%, and capital gains on shares held for more than three years may be tax-free.[16] The latest figures from the Ministry of Finance indicate that the 2012 Finance Law includes 293 measures and exemptions for the benefit of capital, costing the treasury 28 billion dirhams.[17] However, these measures have not achieved the expected growth objectives.

With regard to consumer spending inequalities, the 2019 Gini index was approximately 40% (considered highly unequal).[18] It is therefore crucial to acknowledge that in Morocco, the exacerbation of spending inequalities is approaching a socially intolerable level. Nevertheless, inequalities have increased since the onset of the pandemic, reaching 44% according to the most recent data from the HCP.[19] A 2019 Oxfam report notes the absence of detailed statistics on income and property inequalities in Morocco, despite the latter being of crucial importance.[20] Morocco does not have a wealth tax. The concept of a wealth tax was first discussed in Morocco in May 2013. As indicated in the 2019 Oxfam report, the implementation of a 2% wealth tax over the past decade would have resulted in a twofold increase in the population's health coverage. The debate on the implementation of a wealth tax has been reopened, with proposals varying from 0.1% for assets over 5 million dirhams to 0.5% for assets over 10 million dirhams.[21]

Those who oppose the introduction of a wealth tax argue that it would be detrimental to the economy as it would result in a flight of capital and a subsequent decline in investment affecting economic growth. Nevertheless, a 2015 IMF report refuted the trickle-down theory, demonstrating that higher incomes for the most impoverished stimulate higher economic growth.[22]

The establishment of a real estate wealth tax in Morocco, similar to that in France, represents a more optimal compromise than the aforementioned proposals. It could be considered to diversify sources of tax revenue and improve tax fairness. The proposal to directly allocate revenue from a real estate wealth tax/impôt sur la fortune immobilière (IFI) to finance the expansion of Compulsory Health Insurance (AMO) and family allowances is consistent with the objectives of social protection reform in Morocco. Indeed, the IFI would enable the targeting of large real estate fortunes, thereby ensuring a more equitable redistribution of wealth and a more balanced distribution of tax burdens.

This can help reduce asset inequalities without affecting labor income or productive investments. Unlike a general wealth tax that could tax assets used for economic production (such as business investments), the IFI focuses only on real estate. This incentivizes investments in productive activities that support economic growth and create jobs, and incentivizes more productive use of property, thus reducing real estate speculation.

Considerations for setting up an IFI in Morocco:

It is important to consider the following factors when establishing an IFI in Morocco.

In France, the IFI applies to real estate assets exceeding 1.3 million euros. Morocco could adopt a threshold that is adapted to the country's economic context and standard of living. For example, a threshold could be set for very high-value real estate worth more than 10 million dirhams. A progressive scale could be introduced, with rates increasing according to the total value of the real estate.

Although specific data is required for an accurate estimate, an approximation can be made based on reasonable assumptions and comparisons with other countries.

Based on an assumption[23] that 1% of the population owns high-value real estate, and using progressive rates (0.5%, 1%, 1.5%), the following revenues could be estimated:

Table 2: Estimated Revenue from Progressive Property Wealth Tax (IFI)

Value of real estate (millions of dirhams)	No. of properties in this category	Average value per property (millions of dirhams)	Average tax per property (millions of dirhams)	Tax rate (%)	Estimated revenue (Billions of dirhams)
10-20	18000	15	0,075	0.5	1,35
20-30	10800	25	0,25	1	2,70
More than 30	7200	40	0,60	1.5	4,32
	36000				8,37

Based on the above assumptions, it can be estimated that a real estate wealth tax in Morocco could generate approximately 8.37 billion dirhams per year. The value of the Moroccan real estate market is about 16 trillion dirhams.[24] This means that to collect 8.37 billion in real estate taxes with a progressive tax averaging 1%, the top 5% of the market by value should be targeted. Given typical property value distribution,[25] this 5% of the total value of market value will likely be captured by no more than 0.45% of total properties, numbering around 36,000 of the 8 million properties in Morocco.[26] Surely, the portion of houses subject to the tax can increase in return for a lower average tax rate.

This amount represents approximately 26% of the budget allocated in 2021 for the solidarity non-contributory portion, estimated at 32 billion dirhams, and 14-17% of the total needs for the universalization of social protection, estimated at 50-60 billion dirhams per year. This figure is an estimate and is therefore subject to significant variation depending on the actual distribution of real estate assets, the rates applied, and the efficiency of tax collection. To obtain a more accurate estimate, it would be necessary to access detailed data on real estate wealth in Morocco, including property values and the distribution of real estate wealth among the population. Furthermore, the tax authorities could undertake specific studies to refine these estimates and determine the potential impact of this tax measure.

Conclusion

The current socio-economic inequalities and tax injustice make tax reform an imperative necessity. The implementation of a tax on real estate wealth has the potential to play a pivotal role in this reform. The combination of this measure with administrative efficiency and the fight against tax evasion would facilitate the creation of a sustainable and equitable financing base, the mobilization of substantial resources, the restoration of tax fairness, and the reduction of inequality.

The introduction of a tax on real estate could serve to complement social contributions by targeting a different tax base. In contrast to social contributions, which are levied on earned income, the IFI would target assets, thereby creating a more balanced and equitable tax base.

The implementation of a tax on real estate assets to finance the expansion of social protection in Morocco would be an approach inspired by the French CSG model. This would broaden the tax base, reduce labor costs, and offer a pragmatic response to the challenges of financing social protection in a context where the introduction of a wealth tax is complicated by the fear of capital flight and double taxation of productive capital.

The utilization of taxation to finance social protection offers a more stable and predictable source of funding than social contributions or external aid. Such a system would facilitate long-term planning and more effective resource management. By reducing the reliance on social security contributions, taxation could encourage workers and businesses to join the formal economy, thereby broadening the tax base and increasing government revenue. A tax-financed system is more flexible and responsive to economic and demographic changes than a system financed by other means. For instance, in periods of economic downturn, the government is better positioned to adjust social spending to meet the growing needs of the population.

To guarantee the success of this initiative, it is vital to conduct a comprehensive study to refine revenue estimates, develop a robust legal and administrative framework, and raise public awareness of the advantages of this tax. By coordinating the IFI with other sources of financing provided for in the framework law, Morocco could ensure sustainable and equitable financing of the universalization of social protection, thus improving the well-being of its entire population.

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tance scheme, and was initiated in 2012 to support marginalised groups. The State will cover the compulsory contributions of former RAMED beneficiaries who cannot contribute under the AMO, which represents a form of assistance.

6 Each household registered in the Unified Social Register (RSU) receives a socio-economic index, calculated from its socio-economic data, which takes into account the size of the household, annual expenditure on water and electricity, and the value of its durable goods. Each social programme sets an eligibility threshold. Households whose index is below this threshold can benefit from the programme, subject to meeting other specific criteria.

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Number of property owners above a certain threshold: estimated at 10% of this 1%, or 36,000 people (**assumption**).

Hypothetical distribution of values:

- 10-20 million dirhams: 50% of owners concerned, i.e. 18,000 owners
- 20-30 million dirhams: 30% of owners concerned, i.e. 10800 owners
- Over 30 million dirhams: 20% of owners concerned, i.e. 7,200 owners

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Toward Enhancing Social Protection for Unorganized Workers in Jordan

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Introduction

Social protection is an essential pillar of social and economic stability in any country. In Jordan, there is an urgent need to strengthen the social protection system, especially in light of the increasing economic and social challenges. Social protection contributes to enhancing the social and economic security of individuals and minimizing the gap between different social groups. Jordan's protection system currently suffers from a lack of comprehensiveness and effectiveness, as a large part of the labor force does not enjoy any form of social protection, putting them and their families at risk of poverty and deprivation in the event of job loss, injury, or retirement.

Social protection is considered a human right, and this right is usually fulfilled by designing programs and systems that address social protection in all relevant areas through tax-funded schemes and benefits, including social assistance. The right to social protection includes the right to social security enshrined in Article 22 of the Universal Declaration of Human Rights,[1] and Article 9 of the International Covenant on Economic, Social and Cultural Rights,[2] making the establishment of social protection systems, including social security, part of the state's responsibility towards society.

The right to social security is affirmed in other international conventions such as the Convention on the Elimination of All Forms of Racial Discrimination (Article 11), the Convention on the Rights of the Child (Article 26), and the Convention on the Protection of Migrant Workers and their Families (Article 27), in addition to several International Labor Organization conventions, especially Convention No. 102 on Minimum Standards of Social Security, which Jordan ratified in 2014.

Social protection is defined as "a set of policies and programs designed to reduce and prevent poverty and vulnerability throughout the life cycle".[3] It is a means to achieve justice for all, regardless of age, race, religion, or nationality. By providing basic services, it ensures a decent life free from poverty and exploitation. The current challenges facing Jordan's social protection systems require an overhaul of the existing policies and developing ones that are more inclusive and fairer. This involves creating new insurance tools within the social security system, with partial government support, to cover informal workers who do not meet the criteria of existing policies. Moreover, providing comprehensive social protection for informal workers requires securing sustainable sources of funding for the government.

The success of these options is contingent on an adequate budget allocation. This can be achieved by redirecting fiscal resources and raising revenue through a progressive tax on vacant housing. This approach would provide the necessary support to cover the costs associated with offering universal social protections for all, especially for informal workers who need these protections the most for economic and social stability. This policy brief analyzes the current state of social security in Jordan, drawing on updated data from 2022 and 2023, which shows that approximately 59% of the labor force is not covered by the social security system.[4]

The research question

Currently, Jordan's social security system cannot provide comprehensive coverage for the entire labor force, including a large number of informal workers. This coverage gap leaves large segments of workers and society vulnerable to poverty and economic instability in the event of unemployment, illness, or retirement. The lack of coverage in the current social security system highlights the urgent need for immediate reforms to ensure broader and more effective coverage.

Analyzing the current status of social security and property taxes

To analyze the current state of the social security system, and its gaps, and to search for funding sources for new insurance instruments, this section will provide a brief analysis of the social security system and property taxes.

The social security system

Jordan's social security system faces significant challenges, as a large part of the labor force is excluded from its benefits. This lack of coverage and informality reflects a structural issue that needs to be immediately addressed to ensure universal coverage for all labor groups in the country.

Over the past decades, the Social Security Corporation (SSC) has expanded its effort to cover as many workers as possible. It sought to do this through programs and initiatives aimed at raising awareness of the importance of contributing to social security, as well as continuous amendments to its law, making it obligatory for all establishments to contribute to social security regardless of the number of their workers. According to the latest data issued by the SSC,[5] the number of insured persons covered by social security has reached more than 1.5 million, out of a total workforce of nearly 3 million workers in Jordan.

The ILO defines informal employment as including employed workers and employers working in their own enterprises; contributing family workers, regardless of whether they work in formal or informal enterprises or as domestic workers employed by households; members of unorganized producer cooperatives; and independent workers who produce goods exclusively for the final use of their households – all of whom are not covered by any form of social protection.[6]

Informal labor in Jordan can be divided into two types. The first type comprises workers employed by enterprises, economic units, or self-employed individuals who are not covered by social security and, therefore, do not enjoy any of the insurance benefits provided by the SSC. The second type includes workers who work in organized enterprises but whose employers do not register them with social security – in other words, employers who evade insurance obligations.

According to the Social Security Law, for the first type of workers, the method of insurance coverage is a compulsory contribution of 21.75% of the monthly wage. The employer bears 14.25%, while the worker pays the remaining 7.5%. For unregulated work, such as self-employed workers in unregistered (informal) enterprises, their only option is voluntary participation, where the subscriber pays 17.5% of their monthly income.

Despite this, nearly half of the labor force in Jordan is still not covered by the social security system, including 59% of workers in the private sector.[7,8] Most of these workers are low-income and in dire need of social protection. In addition, many workers in organized economic sectors are not covered by social security because businesses evade registering them with the Social Security Corporation in violation of the law. This group constitutes about 17%,[9] highlighting weaknesses in implementing and monitoring the application of the law. This prevents large groups of workers, even those in the formal economy, from access to basic social protection.

Many informal workers are self-employed or engaged in precarious day jobs, leaving them exposed to significant economic and social risks. These workers often lack formal employment contracts and do not enjoy any kind of social protection that could provide them with economic stability in case of illness or unemployment. The only option the Social Security Law offers these workers is voluntary participation, which costs up to 17.5% of their income – a high cost for them. This voluntary contribution is ineffective in covering a large number of informal workers due to its high cost compared to their unstable incomes. These workers are concentrated in the transportation, construction, and agriculture sectors, as well as among teachers in supplementary education, literacy teachers, public sector service purchasing employees, drivers, and workers in other informal sectors. They face precarious working conditions and a lack of social protection. Their inclusion in the social security system is a strategic step to promote social and economic stability in Jordan. Therefore, this proposal has been submitted with the aim of their inclusion. By partially subsidizing contributions, tangible benefits can be realized for workers and society as a whole, contributing to building a more sustainable and inclusive economy.

The continued lack of social insurance coverage for informal workers poses significant risks to economic and social stability. It increases poverty and unemployment rates and weakens the purchasing power of individuals, negatively affecting the national economy. It also leads to increased social disparity and inequality, threatening social stability and increasing the likelihood of unrest.

Currently, Jordan's social security system provides coverage primarily for workers in formal economic sectors, leaving informal workers without adequate protection. This has left a large part of the labor force exposed to economic shocks and social risks. The high cost of voluntary participation in social security is a major barrier for informal workers, preventing many of them from joining the system. For this reason, many informal workers remain uncovered by any form of social protection. Therefore, there is an urgent need to develop new social insurance schemes within the framework of the social security system, covering these workers at a lower cost and with partial support from the government.

A rough calculation demonstrates the expansion of coverage to 500,000 informal workers through the implementation of a gradual plan over five phases. Each phase targets an increasing number of informal workers, starting with 100,000 workers in the first phase and culminating in 500,000 workers by the fifth phase. The estimated cost of subsidies for each phase ranges from 34.7 million dinars to 173.5 million dinars annually. The following table shows the details of the proposal.

Table showing the structure and cost of the proposed coverage expansion

Subsidy value (million dinars)	Stages of coverage expansion	Number of workers targeted
34.7	Subsidizing 50% of subscription costs for the first phase	100,000
69.4	Subsidizing 50% of subscription costs for the second phase	200,000
104.13	Subsidizing 50% of subscription costs for the third phase	300,000
138.84	Subsidizing 50% of subscription costs for the fourth phase	400,000
173.55	Subsidizing 50% of subscription costs for the fifth phase	500,000

Expanding property taxes in Jordan

The fairness of Jordan's overall tax system has been a subject of debate over time. One of the most common criticisms is its heavy reliance on indirect tax revenues – such as general sales tax, withholding taxes on oil derivatives and telecommunications, and customs duties – which account for 76% of total tax revenues.[10]

On the other hand, real estate taxes in Jordan are not widely discussed, even though they are considered important. Reforming these taxes could both increase tax revenues and improve the fairness of the entire tax system, as real estate taxes are currently considered unjust.

According to tax fairness criteria, real estate taxes in Jordan lack comprehensiveness and equity, especially regarding empty apartments and vacant land. This leads to a significant loss of revenue opportunities for the treasury which could contribute to supporting social protection programs in general, and social security in particular, if effectively implemented by successive governments.

It is generally accepted that real estate tax fairness requires taxing the value of the property and not the rental income. This ensures that property taxes correspond to the actual value of the property, regardless of its rental status. Jordan could consider shifting toward a value-based property tax system to enhance equity and increase revenue potential. Similarly, implementing progressive taxation, where higher-value properties are taxed at higher rates, would contribute to a more equitable distribution of the tax burden.[11]

Another important measure is the imposition of additional taxes on vacant properties, as these taxes encourage property owners to rent or sell their properties, promoting market elasticity and potentially lowering prices. This also increases the supply of available housing and reduces speculative practices. Additionally, granting tax exemptions on small-sized and low-priced housing promotes the development and availability of affordable housing options for middle- and low-income households. By directing real estate tax revenues to strengthen the social protection system, directing real estate tax revenues toward strengthening the social protection system, the government enhances the principle of utility and boosts citizens' confidence in the tax system.

Imposing taxes on vacant apartments and land aligns with the principles of tax justice because it is often imposed on the owners of these properties who have significant financial capabilities. Additionally, it upholds the principle of utility, as these properties benefit from public services such as infrastructure and security, which justifies their contribution through taxes. Taxing empty apartments reduces hoarding and speculation, promotes efficient land use, and contributes to the fair distribution of tax burdens. It ensures that the tax burden is distributed more equitably among property owners, including those who actively use their properties.

Due to the lack of data on the amount of vacant land in Jordan, which makes it difficult to calculate potential tax revenues, this paper focuses on reforming the real estate tax system for empty residential apartments. Revenues from this reform could be strategically allocated to support initiatives aimed at expanding social security coverage in Jordan, especially for informal workers who often lack access to adequate social protection. Thus, the tax resources from empty apartments could be used to subsidize social security premiums.

According to the 2015 Jordanian Population and Housing Census, there were a total of 2.3 million housing units (houses and apartments). Although these statistical indicators are outdated, we will rely on them, so the projections we calculate will be conservative. As of the end of 2023, Jordan's population is approximately 11.5 million.[12] According to 2018 statistics, about 62% of households in Jordan own their homes, 35% rent, and 3% live in housing provided as part of their employment.[13]

A 2021 paper by the French Development Agency (AFD)[14] indicated that approximately 18% of Jordan's housing stock—about 418,000 out of about 2.3 million dwellings (2015 figures) – is vacant, and in Amman, the percentage reaches 23%. According to the Jordanian Engineers Syndicate, approximately 62% of housing units are apartments, and the rest are various types of houses.[15] It is estimated that

257,000 apartments are empty for multiple reasons, including owners leaving Jordan to work abroad. These apartments are intended for the owners' use, and they may return to occupy them at any time; therefore, it is unfair to impose a tax on them.

However, according to estimates by experts in the Jordanian real estate sector, about 75% of these empty apartments are vacant due to their high prices, whether for ownership or rental purposes.[16] This means that there are about 192,000 vacant apartments that could be subject to taxation because they are intended for trade, with owners betting on increasing their prices or selling them at the current high price. Therefore, taxing them often leads to market flexibility, reducing prices and encouraging owners to sell or rent them. If we assume that each apartment would pay 600 dinars per year, which is a reasonable figure for real estate owners and traders, taking into account varying property sizes, the expected revenue would amount to 116 million dinars per year. This amount covers a large part of the partial subsidy proposed to expand social security coverage.

Policy recommendations

Based on the previous analysis of the social security and the income tax systems, and with the aim of expanding social security coverage to include informal workers, the paper recommends the following set of policies:

1. Develop new insurance tools within the social security framework to cover informal workers, especially those who do not meet current social security criteria, such as day laborers, self-employed workers, workers in agricultural holdings with fewer than three employees, drivers, construction workers, and others.

2. Implement a gradual plan to expand social security coverage over five phases. Each phase will target an increasing number of informal workers, starting with 100,000 workers in the first phase and reaching 500,000 workers by the fifth phase, based on the cost estimates made above.

3. Allocate financial resources to support informal workers' contributions to social security. This would include the government bearing 50 % of the contribution cost, with the worker bearing the remaining 50%. The minimum wage of 260 dinars per month could be used as the basis for calculating the subsidy.

4. Develop awareness campaigns to convince segments of informal workers with medium and high incomes to participate in the social security system based on their incomes.

Implementation strategy

To advance the reforms recommended in this policy brief, the following actions must be taken:

1. Legislative process: The proposed amendments to the Income Tax Law and the allocation of budgetary resources to support contributions for informal workers require approval by both the lower and upper chambers of the Jordanian parliament. The government and parliament should conduct consultations with key stakeholders, including civil society organizations, trade unions, and business associations, to build consensus and support for the proposed reforms.

2. An analysis should be conducted that takes into account factors such as investment, tax evasion, and economic growth. The results of this analysis should inform the legislative process and ensure that the proposed changes are sustainable and effective.

3. Civil society organizations working in the fields of social protection and economic justice, along with trade unions, are required to carry out awareness-raising campaigns using diverse and effective tools. These campaigns should emphasize the importance of extending coverage to provide protective measures for informal workers and aim to build and influence public opinion in support of the reforms.

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About the Arab Region Hub for Social Protection

We are a space in and through which professionals dedicated to exploring, understanding and advocating for better social protection in the Arab region exchange ideas and explore and initiate collaborative action. We envision an Arab region in which all people, regardless of their identities, are guaranteed social protections that secure their access to the essential goods and services needed to ensure their well-being and decent standards of living, which in turn gives them the opportunity to prosper and contribute as active members of society. We aim to facilitate the development of equitable and sustainable social protection systems in the region by: executing, encouraging and facilitating the production, analysis, collation, and dissemination of interdisciplinary knowledge about the topic; facilitating dialogue within professional spheres and awareness raising among the wider public; and enhancing collective action that amplifies advocacy efforts with the different stakeholders and decisionmakers.

About the Social Protection Program

The Arab Reform Initiative's Social Protection Program, which gave birth to the Arab Region Hub for Social Protection, aims to place social policy and its impact on the socio-economic rights of citizens and residents in Arab countries center stage in the research and advocacy efforts seeking to achieve social justice and social equality. By mobilizing and coordinating a community of practice and knowledge on social protection, the program aims to create a safe space for regular and systematic dialogue between the different stakeholders, in order to help addressing the problem of fragmented, non-inclusive, ineffective, and unsustainable social protection systems in the region. While doing so, the program adopts different perspectives – from addressing the necessary policy, programmatic, institutional, financial, legal and legislative reforms; to the political economy involved in the feasibility of these reforms; passing by social activism around welfare policies.

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About the Arab Reform Initiative

The Arab Reform Initiative is an independent Arab think tank working with expert partners in the Middle East and North Africa and beyond to articulate a home-grown agenda for democratic change and social justice. It conducts research and policy analysis and provides a platform for inspirational voices based on the principles of diversity, impartiality, and gender equality.