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Analysis Of The Tax Structure And Tax Policy In The Republic Of Yemen

Faisal BASUHAIB

f.basuhib@gmail.com

Aden University Faculty of Economics,

Department of Finance and Banking (Yemen)

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Abstract

The importance of the research lies in the fact that it highlights the tax policy of the Republic of Yemen as one of the instruments of fiscal policy that affects the course of economic changes. Tax policy contributes to achieving various dimensions of economic development. It is also considering an important source of financing the general burdens of the state and plays an important role in achieving economic growth and addressing various economic imbalances such as inflation and recession.

Keywords: Tax policy, Direct taxes, indirect taxes, revenues.

1. INTRODUCTION

Interest in the study of tax policy and the implications of its use as a way of guiding the economy and as a tool for financing development has increased. As the role of the State has evolved from a guard state with specific functions to one involved in economic activity with the aim of creating balance and stability. In addition, the role of the State starting at this stage has been a translation of the views of some economists who have called for the need to expand its functions, stressing that it is the only way to prevent economic crises.

In this context, tax policy take care of as one of the most important symbols of sovereignty. Moreover, the appearance of power, as it exists in all contemporary economic systems in different and different forms and contents, but it shares that it is an important and vital financing tool and a major source of state revenue, especially those on the path to growth and management of guidance and stimulation of economic activity.

Hence the importance of studying the analysis of tax policy in solving the problem of financing, to keep pace with the transformations that the Yemeni economy has experienced. And therefore, the importance of taxation as a tool of control and guidance to keep pace with economic changes, and considers the importance of tax in addressing economic imbalances in line with the current circumstances in the Yemeni economy, through institutional tax procedures and decisions that are compatible with achieving the balance of the national economy.

Our study devotes to examine the problem of research that lies in the underperformance of tax policy in achieving its economic, financial and social objectives, and trying to answer the questions that come:

What is the reality of tax policy in Yemen and how effective is it in the economic system?

2. Research Methodology and Hypotheses

In this section, we discussed the development of the Yemeni tax structure. Then we will learn about the tax reforms in the Republic of Yemen, which implemented in order to reform the tax structure and a statistical measurement analysis of the variables of the study. The study was conducted over a time series from 2000-2013.

1. 2- Hypotheses of the study:

Hypothesis 1: There is no statistically significant impact of GDP on tax revenues at a moral level (0.05).

Hypothesis 2: There is no statistical effect of GNP on tax revenues at a moral level (0.05).

Hypothesis 3: There is no statistically significant effect of tax revenues on public revenues at a moral level (0.05).

3. An Overview of The Relevant Literature

Previous relevant studies used and these studies summarized as follows:

Nidal Baguiri's study, the efficiency of tax policy and its impact on investment trends in the Republic of Yemen for the period 2000-2012, Master's Thesis (unpublished), Faculty of Economics, University of Aden, Republic of Yemen, 2016. The study aimed to clarify the complex and saturated relationship between tax and investment, analyze the structure of Yemen's tax structure, diagnose its imbalances, and evaluate the tax system by analyzing both tax policy performance and investment trends. The study found a range of results, the most important are:

The success of tax policy in encouraging investment depends on the efficiency of poor tax administration to a tax and weak tax administration that can turn the best taxes to the worst as tax policy may judge negatively or positively by tax policy through tax administration rather than through tax legislation. There is an imbalance in the distribution of investment between the economic sectors if the trend of investments towards the industrial and service sectors characterizes by short-term and fast-return projects. The study showed the weakness of tax policy in attracting investments, whether Arab or foreign investments. The study recommended several references, most important are: a work to create a suitable investment environment that puts an end to the obstacles to investments, which is a pillar of the process attracting investment without it makes no sense to talk about investment incentives. Work to implement investment-related laws in order to achieve administrative complexities and remove confusion, ambiguity and jurisprudence. Reviewing taxes and using them as an important financial resource to reduce the budget deficit as a fiscal policy instrument.

Abdelhamid Affi's study, the effectiveness of tax policy and its impact on achieving sustainable development. Study of the Case of Algeria during the period 2001-2012, Master's Thesis (unpublished), Faculty of Economic and Commercial Sciences and Tissier Sciences, Farhat Abbas

University, Algeria, 2015, the study aimed to show tax policy in achieving sustainable development in all its dimensions, highlight the most important axes of tax reform in Algeria and the general context of this reform and its most important results, and evaluate the policy tax in all its dimensions, and highlight the most important axes of tax reform in Algeria and the general context of this reform and its most important results, and evaluate the policy of tax in all its dimensions. Taxation in Algeria and knowing its effectiveness in achieving the various dimensions of sustainable economic and social development and the environment and the obstacles to achieving its goals. The study found a range of results, the most important of which are: Despite the relative success of tax reform, which enabled regular collection revenues to be increased more than fourfold during the study period, these reforms did not achieve one of their most important objectives of replacing the regular levy with the oil levies. The expansion of the shadow economy is one of the most important external constraints to the effectiveness of tax policy in Algeria, i.e., a large proportion of economic activities carry out outside the control of public authorities and their owners are not subject to various taxes, which would deprive the public treasury of significant revenues. The futility of investment tax policy is linked not only to the nature of this policy, but also to the general climate of investment in Algeria, any investment promotion tax policy must be accompanied by a range of actions in various areas related to the investment climate. The study recommended several recommendations, the most important of which are: Supporting the policy of international tax agreement, especially with regard to double taxation, in order to avoid all that would hinder foreign investment. Reviewing the tax rates on the consumption of luxury goods in order to achieve higher incomes for the public treasury in addition to paying attention to taxes on wealth and property, thereby raising the cost-effectiveness of these taxes. To generalize the imposition of environmental taxes and fees on all those covered by the law, which would raise the proceeds of this type of tax and motivate all those charged with it to use environmentally technology.

Mohamed Allawi's study, an analytical study of the rules of establishing and collecting taxes in Algeria, doctoral thesis (unpublished), Faculty of Economic, Commercial and Facilitation Sciences, Mohamed Khider University in Sakra, Algeria, in 2015. The study aimed to diagnose the theoretical framework of the tax system and its relationship to the economic structure of the state and the theoretical mechanisms for its reform, as it tries to assess the reality of the management of the tax system in Algeria and the prospects of its development in response to the requirements of the environment. Local and international, depending on the performance indicators of the study sample. The study found a range of results, the most important of which are: Lack of tax culture and lack of confidence factor. The weakness of the collection factor divides into two parts: Friendly collection:

A small percentage of those subjects to pay the tax due to them in their legal jurisdiction. Compulsory collection: By using penalties and judicial follow-up to collect the tax levied and due on the various taxpayers, we also note poor follow-up in collection. Lack of adequate tax control: the absence of an effective control system in all its forms loses the tax administration the speed of discovery of irregularities and the imposition of appropriate penalties to ensure that the tax collected for the benefit of the Treasury State. The study recommended several recommendations, the most important of which are: To build and activate a national participatory structure of academics at universities and professional experts to reach a strong and pioneering tax system. The need to declare a comprehensive tax that allows evaders and illegal activities to be regular to the tax. The new reform and in the absence of electronic permit we propose to activate the electronic permit system or activate the return to the old system.

Azzouz Ali Study, Mechanisms and Requirements for Activating Arab Tax Coordination Reality and Challenges, Doctoral Thesis (Unpublished), Faculty of Economic, Commercial and Tissier Sciences, Hassiba Ben Bouali Al-Shalif University, Algeria, 2014. The study aimed to identify the reality of tax cooperation between Arab countries, and identify the main reasons why the Arab tax coordination project is not reflected in order to reach the contours of the suitable tax for future success of the project. The study found a range of results, the most important of which are: The administrative bodies of Arab tax systems are lagging behind, with the administrative efficiency of the bodies based on the application of these systems being reduced. The ongoing tax coordination between Arab countries is still in place and has not yet been able to overcome its early stages of removing tax and customs barriers. Most Arab countries are singled out for their tax terms of reference alone, and most of the Arab treaties and agreements signed have not been implemented on the ground. The study recommended several recommendations, the most important of which are: Most Arab countries suffer from a decline in the flexibility of the tax system, despite reforms to tax systems. The need to activate tax coordination mechanisms between Arab countries and remove the differences in conflicting tax systems through the formation of an Arab union of Arab tax associations, and the formation of higher tax councils in Arab countries aimed at preserving the rights of taxpayers. To facilitate the process of Arab tax coordination, Arab countries' legislation must include a unified vision in the treatment of Arab investment incoming, as well as providing all guarantees that work to achieve tax justice among Arab taxpayers.

4. Public revenues:

We mean sources of financing for the financial activity of the public economy, where public expenditure coverage requires the management of the necessary financial resources, and the State obtains these resources mainly from national income within the national financial capacity, or from abroad when these resources are insufficient to meet the requirements of public spending.

Public revenues have evolved with the development of economic and financial thought, with public revenues limited to how to provide the public treasury with the necessary funds to cover the public spending needed for the state to carry out its basic functions.

Public revenues become an important tool for obtaining public funds, but they have become an important financial. Policy tool which governments can influence economic and social activity, in addition to the increasing importance of public revenues, depending on the increased importance of public spending as a necessary result of the increasing role of the state in various aspects of economic and social activity.

1.4 Tax Revenues:

Tax revenues are an important and major source of public revenues in developed countries as they receive great attention and strict procedures in the legal collection from their governments in order to narrow the tax evasion gap and ensure that tax revenues reach the state treasury. Republic of Yemen is one of the least developed countries, however, it has paid great attention to the tax issue. Such attention was clear through modernizing its tax laws and collection procedures as it is considered a major source of public revenues and a tool of financial policy used by the state with the aim of redistributing national income and achieving stability, economic balance and social justice.

The importance of this source is not due to its absolute or relative sizewhen compared to other sources of revenue, but rather to the extent of the impact of taxes on the political, economic and social aspects.

5. Direct Taxes:

Direct taxes are imposed on the value of what the taxpayer achieves or owns from the elements of capital and the taxpayer is the one who bears it permanently and cannot transfer its burden to others. In Yemen, the tax was collected on the taxpayers according to Article (48) of the annual income subject to taxes.

1.5 The Components of Direct Taxes:

- Income Taxes:

Income taxes include: (salaries and wages tax , commercial and industrial profits tax , profit tax on freelancing professions and other non-commercial and industrial professions, real estate revenue tax, real estate sales tax and taxes on the income of foreign oil and mineral companies.)

- Zakat tax.
- Capital and property tax.

2.5 The Fourth Requirement: Indirect Taxes:

Indirect taxes began to be applied to some locally produced and imported goods. After achieving unity, those taxes were collected within the framework of the Production, Consumption and Services Taxes Law No. (70) for the year 1991. Amendments were made by Law No. (149) for the year 1996 then by the Law No. (4) for the year 1997 and later on by Law No (23) for the year 1999.

1.2.5 The components of the indirect tax branches are as follows:

- Taxes on production and consumption.
- Customs taxes.
- Other taxes (sales tax).

2.2.5 Tax Reforms:

- Issuing Law No. 19 for the year 2001 regarding general sales taxes which will replace production, consumption and services taxes Law No. 70 for the year 1991 and its amendments.

- Postponding implementing the general sales tax until 1/7/2005.

- Introducing reforms to the Production, Consumption and Services Taxes Law by subjecting many services such as mobile phone services, advertising services, express mail services and encrypted satellite channels service in accordance with Law No. (14) for the year 2004 and amending

Law No. "70" for the year1991 and amending Law No. 19 for the year2001.

- Under Law No. 19 for the year 2001, which was applied on 1/7/2005, the base of submission was expanded and many reforms emerged.

- Issucing the President of the Republic and President of the Supreme Judicial Council Resolution No. 19 for the year 2003 for establishing tax courts in the capital city and Aden governorate.

- The issuing Council of Ministers Resolution No. 253 for the year 2003 regarding consular fees.

- Implementation of the tax with the lump-sum tax system in accordance with Law No. 12 of the year 1999.

- Implementation of the self-linking system.

- Directing those charged with importing the tax directly to the banks and coordinating with the Central Bank in this regard.

- Continuing to update the system of taxpayers (the unified tax number) which started in the year 1997.

- The establishment of the Senior Taxpayers Unit in accordance with Republican Decree No. 140 of 2000.

- Introducing a new tax reporting system according to the database.

- Facilitating administrative procedures in order to raise the efficiency

of tax administration.

- amending the income tax by the issuance of Law No. (17) of 2010 regarding income taxes. This law reduced the tax rate on salaries and wages from 20% to 15%.

6. Statistical and standard analysis of study variables:

In this research, standard analysis used to describe the study variables by using the method of multiple linear regression to test the theories of the study.

1.6. H1: There is no statistically significant impact of GDP on tax revenues at a moral level (0.05). To test the hypothesis, the researcher used a simple linear regression method and the results were as follows:

Table 1. Results of the simple linear regression model of the relationship between GDP and tax revenues

Dependent Variable: Y1
Method: Least Squares
Date: 01/14/23 Time: 17:15
Sample: 1 14
Included observations: 14

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-4783.938	34418.03	-0.138995	0.8918
X1	0.070968	0.006904	10.27939	0.0000
R-squared	0.898016	Mean dependent var		318685.6
Adjusted R-squared	0.889518	S.D. dependent var		156943.5
S.E. of regression	52166.28	Akaike info criterion		24.69382
Sum squared resid	3.27E+10	Schwarz criterion		24.78512
Log likelihood	-170.8568	F-statistic		105.6658
Durbin-Watson stat	1.228947	Prob(F-statistic)		0.000000

Through the previous table, the simple regression model of the relationship between GDP as an independent variable and tax revenues formulated as a dependent variable as follows:

$$y_1 = -4783.938 + 0.070968X_1$$

Table 1 explain the correlation between the independent variable (Gross Domestic Product) and the dependent variable tax revenues, and this was explained by the Pearson correlation coefficient, where its value amounted to (0.93) and it is statistically significant at the level of significance (0.05). It also shows the regression coefficient of the independent variable (GDP), which amounted to (0.070968), while we find that (GDP) directly affects tax revenues, that is, whenever (Gross Domestic Product) increases by one unit, tax revenues increase by (0.070968). It is statistically significant at the level (0.05). This clarifies by the T-test for the parameters of the model as it appears in the fourth column of the previous table. GDP also affects tax revenues by (89%), while (11%) is due to other factors not included in the model, which are statistically significant and this clarify by the F-test, where its value reached (105.6658) and at a level of statistical significance (0.000), which is less than the level adopted in the comparison (0.05).

To test the estimated model's absence from the self-association problem and the error limit variability instability problem, the researcher used the DW link test to detect the self-link problem and arch test to detect the error limit contrast problem and the results were as follows:

It is clear from the previous table that the value of the DW test was 1.228947 and is close to 1.3) so the model does not suffer from the problem of self-association. The table shows the result of arch testing for contrast stability test

Table 2: ARCH test for contrast stability

ARCH Test :			
F-statistic	2.274182	Probability	0.159716
Obs*R-squared	2.227208	Probability	0.135599

We find that the moral value associated with arch testing was (0.135599) greater than the level adopted in the comparison (0.05). The model does not suffer from the problem of instability of inequality and based on statistical and standard analysis we reject the hypothesis of nothingness which states (there is no statistically significant effect of GDP) Total tax revenue at a moral level of 0.05). We accept the alternative hypothesis that (there is a statistical impact of GDP on tax revenues at a moral level of 0.05).

2.6: H2: There is no statistical effect of GNP on tax revenues at a moral level (0.05), and to test the hypothesis the researcher used a simple linear regression method and the results were as follows:

Table 3: Results of the simple linear regression model of the relationship between GNP and tax revenues

Dependent Variable: Y1				
Method: Least Squares				
Date: 01/14/23 Time: 17:16				
Sample: 1 14				
Included observations: 14				
Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	-963.2291	32605.56	-0.029542	0.9769
X2	0.074277	0.006908	10.75171	0.0000
R-squared	0.905956	Mean dependent var		318685.6
Adjusted R-squared	0.898119	S.D. dependent var		156943.5
S.E. of regression	50094.59	Akaike info criterion		24.61278
Sum squared resid	3.01E+10	Schwarz criterion		24.70407
Log likelihood	-170.2894	F-statistic		115.5993
Durbin-Watson stat	1.151519	Prob(F-statistic)		0.000000

Through the previous table, the simple regression model of the relationship between GNP formulate as an independent variable and tax revenues as a dependent variable as follows:

$$y_1 = -963.2291 + 0.074277X_2$$

Table 3 shows the correlation between the independent variable (Gross National Product) and the dependent variable tax revenue, and this explained by the Pearson correlation coefficient, where its value amounted to (0.94), which is statistically significant at the level of significance (0.05). It also shows the regression coefficient of the independent variable (Gross National Product), which amounted to (0.074277), while we find that (Gross National Product) directly affects tax revenues, that is, whenever (Gross National Product) increases by one unit, tax revenues increase by (0.074277), which is significant. Statistically at the level (0.05). This clarifies by the T-test for the parameters of the model. As it appears in the fourth column of the previous table, and (Gross National Product) affects tax revenues by (90%). While the percentage (10%) is due to other factors not included in the model, which are statistically significant, and this is what the F-test made it clear, with a value of (115,5993) and a level of statistical significance (0.000), which is less than the level adopted in the comparison (0.05). Second: Standard analysis:

To test the estimated form's absence from the problem of self-association and the problem of fault-limit incompatible instability, the researcher used the DW link test to detect the self-link problem and arch test to detect the problem of error limit variation and the results were as follows:

It is clear from the previous table that the value of the DW test was 1.96, which is greater than (1.3) and therefore the model does not suffer from the problem of self-association.

The table shows the result of arch testing for contrast stability

Table 4: ARCH test for contrast stability

ARCH Test:			
F-statistic	1.665015	Probability	0.223392
Obs*R-squared	1.709054	Probability	0.191108

The moral value associated with arch testing was 0.191108 higher than the level adopted in the comparison (0.05), so the model does not suffer from the problem of incompatibility of inequality. A statistical indication of gross national product on tax revenues at a moral level of 0.05) and we accept the alternative hypothesis that (there is a statistically significant effect of GPD on tax revenues at a moral level of 0.05).

3.6: H3: There is no statistically significant impact of tax revenues on public revenues at a moral level (0.05). To test the hypothesis, the researcher used a simple linear regression method and the results were as follows:

Table 5: Results of the simple linear regression model of the relationship between tax revenues and public revenues

Dependent Variable: Y3
Method: Least Squares
Date: 01/14/23 Time: 17:23
Sample: 1 14
Included observations: 14

Variable	**Coefficient**	**Std. Error**	**t-Statistic**	**Prob.**
C	145564.5	161763.9	0.899858	0.3859
Y1	3.798260	0.458580	8.282662	0.0000
R-squared	0.851121	Mean dependent var		1356015.
Adjusted R-squared	0.838715	S.D. dependent var		646148.6
S.E. of regression	259495.5	Akaike info criterion		27.90243
Sum squared resid	8.08E+11	Schwarz criterion		27.99372
Log likelihood	-193.3170	F-statistic		68.60248
Durbin-Watson stat	1.995111	Prob(F-statistic)		0.000003

Through the previous table, the simple regression model of the relationship between tax revenues formulate as an independent variable and public revenues as a dependent variable as follows:

$$y_3 = 145564.5 + 3.798260Y_1$$

It is clear from Table 5 that there is a correlation between the independent variable (tax revenues) and the dependent variable, public revenues, and this explain by the Pearson correlation coefficient, where its value was (0.92), which is statistically significant at the level of significance (0.05). It also shows the regression coefficient of the independent variable (tax revenues), which amounted to (3.798260), while (tax revenues) directly affect the public revenues, that is, whenever (tax revenues) increased by one unit, the public revenues increased by (3.798260), which is statistically significant at the level of (0.05). This clarify by the T-test for the parameters of the model, as it appears in the fourth column of the previous table, as (tax revenues) affect public revenues by (85%). While the percentage (15%) is due to other factors not included in the model, which are statistically significant and this is what was clarified F-test where its value reached (68.60248) and the level of statistical significance (0.000003), which is less than the level adopted in the comparison (0.05).

To test the estimated form's absence from the problem of self-association and the problem of fault-limit incompatible instability, the researcher used the DW link test to detect the self-link problem and arch test to detect the problem of error limit variation and the results were as follows:

It is clear from the previous table that the value of the DW test was 1.99, which is greater than (1.3) and therefore the model does not suffer from the problem of self-association. The table shows the result of arch testing for contrast stability test.

Table 6: ARCH test for contrast stability

ARCH Test:			
F-statistic	0.111382	Probability	0.744852
Obs*R-squared	0.130313	Probability	0.718107

The moral value associated with arch testing is greater than the level adopted in comparison (0.05). Tax on public revenues at a moral level of 0.05) and we accept the alternative hypothesis that (there is a statistically significant effect of tax revenues on public revenues at a moral level of 0.05).

7. CONCLUSION

Tax policy plays an important role in the economies of countries. Recent studies and research by this tax policy have shown in support of the national economy, which requires the search for effective methods and ways to support and develop this policy, and tax policy today is seen as an effective means of helping tax administration and tax interests prove themselves to provide the financial, technical and administrative resources they need.

Through our research, we have concluded that the tax system is an important source of tax collection and increased financial returns for various taxes. The tax system is working to discover the statistical capabilities pursued, and therefore the tax system had to be thoroughly researched and developed and tax reforms affecting its various components were necessary, requiring economic and political reform, which the burden of doing was on the state.

The research showed Yemen's reliance on tax revenues to finance the state budget despite reforms that affected the tax structure. We have also noted the weak contribution of tax revenues to public revenues, due to the lack of expansion of the productive base of the national economy, as well as difficulties in tax collections as well as tax evasion and fraud, and we do not forget the weakness of tax administration as well.

The dominance of indirect taxes in the structure of the tax system does not support the effectiveness of the tax system because of the unfairness of those taxes, so the tax legislator must reduce the size of those taxes and rely on direct taxes by encouraging investment.

The study also looked at the nature of the relationship between independent variables and affiliated variables. The study relied on the analytical method and relied on all secondary sources for the purpose of answering the questions of the study, testing hypotheses and achieving the objectives of the study through the basic data published in the annual statistics book.

The data were processed using regression analysis using the statistical analysis programme to extract the relationship between variables and to see how independent variables affect dependent variables.

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