

Assessing Algeria's Local Taxation: An Analysis of Current Realities and Emerging Challenges

تقييم الجباية المحلية في الجزائر: بين تحليل للواقع الحالي والتحديات الناشئة

Almi Hassiba¹

Annaba University- Algeria
hassibalmi@gmail.com

Mehadjbia Nassira

Blida 2 University- Algeria
hanenmhadjbia@yahoo.fr

Received: 21/07/2023

Accepted: 01/10/2023

Published: 11/11/2023

Abstract:

This study aims to provide a comprehensive description, analysis, and evaluation of the tax system in Algeria. Additionally, it seeks to highlight the obstacles the tax system faces and propose potential solutions to address these issues. The descriptive analytical approach was employed to examine the present state of Algeria's domestic taxes to identify barriers and generate practical recommendations for their effective resolution. The study identified deficiencies in Algeria's tax system, encompassing inadequate income generation, restricted tax regulations, and an undue dependence on funding from the central government. This study proposes adopting a comprehensive set of reforms to tackle these challenges. These reforms encompass bolstering legal frameworks, augmenting tax revenues, enhancing the capabilities of local administrations, and prioritizing public awareness initiatives that are instrumental in fostering tax compliance. Additionally, it is imperative to provide support to the Central Government in its efforts to fortify tax collection at the local level. Ultimately, it is essential that all pertinent parties collectively adopt a comprehensive and effectively coordinated approach.

Keywords: Local taxation, fiscal system, revenue, challenges; tax compliance.

ملخص:

تهدف هذه الدراسة إلى تقديم وصف شامل وتحليل وتقييم للنظام الضريبي في الجزائر، وتسعى إلى تسليط الضوء على العقبات التي يواجهها النظام الضريبي واقتراح الحلول المحتملة لمعالجتها. وقد تم استخدام النهج التحليلي الوصفي لدراسة الحالة الراهنة للضرائب المحلية التي تفرضها الجزائر لتحديد الحواجز ووضع توصيات عملية لحلها على نحو فعال. وتوصلت الدراسة لأوجه القصور في النظام الضريبي الجزائري، والتي تشمل عدم كفاية توليد الإيرادات، واللوائح الضريبية المقيدة، والاعتماد غير المبرر على التمويل من الحكومة المركزية. ولمواجهة هذه التحديات، تقترح هذه الدراسة اعتماد مجموعة شاملة من الإصلاحات، والتي تشمل تعزيز الأطر القانونية، وزيادة الإيرادات الضريبية، وتعزيز قدرات الإدارات المحلية، وإعطاء الأولوية لمبادرات التوعية العامة التي تساعد على تعزيز الامتثال الضريبي. وبالإضافة إلى ذلك، لا بد من تقديم الدعم للحكومة المركزية في جهودها الرامية إلى تعزيز تحصيل الضرائب على الصعيد المحلي. وفي نهاية المطاف، من الضروري أن تعتمد جميع الأطراف ذات الصلة مجتمعة نهجا شاملا ومنسقا بفعالية.

الكلمات المفتاحية: الضرائب المحلية، النظام المالي، الإيرادات، التحديات، الامتثال الضريبي.

¹ - Corresponding author: Almi Hassiba, e-mail: hassibalmi@gmail.com

1. INTRODUCTION

Local taxation plays a significant role in the fiscal systems of all countries. The primary source of revenue for local governments is derived from this source. Local tax in Algeria is paramount as it is a direct funding source for critical public services such as healthcare, education, and infrastructure development initiatives. The municipal taxation system in Algeria faces significant obstacles that impede its efficiency and effectiveness.

In Algeria, limited administrative capability and inadequate tax bases present significant challenges to effectively collecting taxes. One prevalent challenge numerous local governments face is generating sufficient cash to meet their operating requirements effectively. The lack of accountability and transparency engenders a sense of distrust among citizens and local government authorities.

The findings of this study will significantly contribute to the understanding of the operational mechanisms of the Algerian taxation system. This will provide valuable insights to policymakers, tax administrators, and other relevant stakeholders who rely on this crucial financial foundation. Implementing this strategy will yield enhanced policies and procedures to bolster the local tax system and promote sustainable development.

Consequently, the research problem was formulated through the following inquiry:

What are Algerian's local taxation system's main challenges in collecting taxes?

Hypotheses: This research is guided by the following ideas:

- Inadequate administrative capacity and insufficient tax bases are significant obstacles to efficient tax collection in Algeria.
- A lack of accountability and transparency in the local taxation system creates distrust between civilians and government officials.

The objectives of the study: This study has been conducted to achieve the following goals:

- The evaluation of Algeria's local taxation status is warranted.
- Local governments have challenges when they endeavor to impose and gather taxes.
- This paper aims to analyze potential solutions that might effectively overcome the constraints above.
- Improving the efficacy of the local taxation system is of utmost significance.
- The objective of this study is to analyze the current circumstances regarding municipal taxation in Algeria, to identify the challenges that occur, and to present alternative remedies.
- This research aims to comprehensively analyze the existing condition of local taxation in Algeria, ascertain the associated obstacles and prospects, and propose viable strategies to address them.

Research Methodology: The study employed **An analytical descriptive approach** to examine its research objective. The primary aim of this technique is to comprehensively comprehend the present condition of municipal taxes in Algeria, along with the challenges it encounters. This will be achieved by systematically gathering, scrutinizing, and interpreting relevant data.

Structure of the Study: The study is structured into three distinct sections.

- **The Theoretical and Legislative Framework for Local Taxation:** This part offers a comprehensive examination of the theoretical underpinnings of local taxation and the legislative framework that governs local tax in Algeria.
- **Current State of Local Taxation in Algeria:** This section analyzes the present state of local taxation in Algeria, focusing on local governments' obstacles in imposing and collecting taxes.
- **The Section on Challenges Confronting Local Taxation in Algeria and Prospective Measures to Enhance It:** This segment delineates the primary obstacles encountered by the local taxation framework in Algeria and puts forth viable remedies to surmount them, augmenting the system's efficacy.

2. Literature Review: Numerous scholarly investigations have shed light on the difficulties encountered by municipal taxation systems throughout diverse nations. However, our examination has specifically centered on an Algerian study, which delves into the abovementioned subject.

- **Role of Local Taxation in Enhancing Local Finance by Righi Asma (2022)** conducted an analytical field study on the role of local taxation in enhancing the local finance of local authorities in the shadow areas in Algeria, explicitly focusing on the municipality of Bordj Zemoura from 2015 to 2020. The study revealed that the contribution of local taxes to increasing revenue and covering the expenses of Bordj Zemoura municipality remains very limited, not exceeding 2%. It identified several obstacles faced by the city, including a lack of flexibility at work, meager incomes, and tax evasion. Asma recommends focusing on the economic sector, paying more attention to the tourism sector, and considering the regional dimension in determining various taxes, as local taxes should be imposed according to the region's specificities.

- **Mdjamia and Taibi (2021)** conducted a study examining the challenges encountered by local taxation in financing local finance and proposed strategies for its reform. The researchers analyzed two primary factors: local achievement and local funding. However, they did not extensively examine a case study that specifically addressed the theoretical aspects of the study. The study's findings suggest that local taxation plays a significant role in funding the municipal budget. However, this process is impeded by various challenges, one of which is the subordination to a centralized governing body that controls all matters about local taxation.

- **Performance of the Tax Control System by Mahtout Samir (2019):** In a study conducted by Mahtout Samir (2019), an analysis and evaluation were conducted on the efficacy of the tax control system in Algeria. The author observed that the Algerian tax system comprises two unique components: regular taxation, which encompasses all company operations and direct and indirect taxes, and petroleum taxation, which explicitly targets petroleum products and activities related to the hydrocarbons sector. Samir underscored the declarative nature of the system, highlighting its susceptibility to control and verification. The tax administration utilizes various methodologies, such as internal and external tax control, to verify the integrity of reported tax data, thereby combatting fraud and tax evasion.

- The concept of fiscal sovereignty refers to the authority and autonomy of local governmental bodies in managing their financial affairs. In a study conducted by **Samir Boumoula (2020)**, an

investigation was undertaken to analyze the extent of fiscal sovereignty possessed by municipal administrations in Algeria. The author observed that although the initial municipal law of January 1967 permitted decentralization, local authorities in Algeria lacked budgetary sovereignty. Law 90-08, enacted on April 7, 1990, did not alter its intended purpose of ensuring enhanced autonomy in the administration of municipal economic matters. Boumoula's study aimed to provide a comprehensive assessment of local taxation in Algeria and then identify the factors that could potentially enhance its effectiveness through a scenario-based analysis.

The previous studies above comprehensively examine the diverse obstacles the Algerian tax system encounters. These challenges encompass the insufficient contribution of local taxes to local finances, as underscored by Righi Asma (2022), the difficulties in financing local finance as identified by Mdjamia and Taibi (2021), the ineffectiveness of the tax control system as observed by Mahtout Samir (2019), and the absence of fiscal autonomy among local authorities as analyzed by Samir Boumoula (2020).

While all the research mentioned above has significantly contributed to the comprehension of many facets concerning the difficulties encountered by the Algerian tax system, the present study distinguishes itself through several vital differences.

A thorough examination and evaluation: The primary objective of the current study titled "Assessing Algeria's Local Taxation: An Analysis of Current Realities and Emerging Challenges" is to offer a thorough depiction, examination, and assessment of the taxation framework in Algeria. In contrast, the studies above concentrate on particular facets of the tax system. In local finance, Righi Asma (2022) examines the role of local taxes in shadow areas, while Mdjamia and Taibi (2021) delve into the obstacles local taxation faces in funding local finance. Mahout Samir (2019) directs attention toward evaluating the effectiveness of the tax control system, whereas Samir Boumoula (2020) centers on the fiscal autonomy of local governing bodies.

The study presents a comprehensive analysis of the shortcomings in Algeria's tax system and offers a range of proposed solutions. These solutions encompass strengthening the legal frameworks, increasing tax revenues, improving the capacities of local administrations, and prioritizing public awareness campaigns to promote tax compliance.

Coordinated Approach: This study underscores the significance of a comprehensive and collaborative approach involving all relevant stakeholders, a dimension not emphasized in the studies.

This paper presents a more complete and integrated approach to tackling the Algerian tax system's challenges. The primary aim of this endeavor is to offer a comprehensive viewpoint and propose pragmatic remedies for efficiently addressing these obstacles.

3. Theoretical framework for local taxation.

3.1. Definition and concept of local taxation:

There exist numerous interpretations of municipal taxation; nonetheless, we have chosen to adopt the subsequent definition:

- Local taxation refers to the process by which local governments collect taxes from individuals and businesses based on various factors such as property ownership, income levels, sales transactions, and other sources of revenue. The primary purpose of local taxation is to generate funds that are subsequently allocated toward supporting and maintaining essential local services, including but not limited to education, transportation, and public safety.¹

- Local taxation is imposing taxes by local governing bodies on different forms of income and property to generate funds to provide public services and infrastructure.²

- Local taxation encompasses the process by which local governmental entities gather taxes and levies from individuals and businesses to finance the provision of public services and the development of infrastructure.³ The process entails the distribution of various tax revenues to local governing bodies, with property taxation being advocated for its capacity to maintain stability in times of economic recession.⁴ Local taxation's legislative and regulatory structure exhibits variations among different countries, necessitating enhancements and codification of legislation within this domain. Local taxes can be acquired from individuals and corporations by providing certain services, such as parking fees.⁵ The primary objective of local taxes is to achieve a harmonious alignment between the generated income and the range of public services offered by local governments while also considering the distinct requirements and attributes of various locations.⁶

- An essential element of local taxes is facilitating decentralization and promoting local governance. The concept of decentralization entails delegating power and duties from central governing bodies to regional or local governing bodies, which includes granting the ability to impose and gather taxes. The devolution of tax revenue management to local administrations enables them to exercise discretion in determining the distribution and utilization of these financial resources. The concept of fiscal autonomy is strongly intertwined with local taxes since it pertains to the capacity of local governments to generate and oversee their financial resources.⁷

The challenges encompass a restricted range of tax sources, diminished adherence to tax regulations, insufficient management of tax processes, and opposition from political entities towards tax augmentation. To address these difficulties, local governments must implement robust tax policies, establish efficient tax administration systems, and actively engage in public education and outreach initiatives to bolster tax compliance and accountability.⁸

3.2. The Brief background information on the importance of local taxation in Algeria:

Local taxes play a pivotal role in generating money for local governments in Algeria, facilitating the funding of their operations and providing critical public services to their constituents. The significance of local taxation in Algeria is derived from the country's decentralization strategies, which seek to shift duties and resources from the central government to local governing bodies. Fiscal decentralization is often regarded as a mechanism that enhances the level of local autonomy, fosters the development of local democracy, and enhances the overall efficiency and effectiveness of public service provision.⁹

The necessity of implementing municipal taxation in Algeria is further motivated by the nation's economic difficulties, namely the diminishing oil earnings and the rising need for public services. The significance of local governments in tackling these difficulties and fulfilling the

demands of their communities is anticipated to grow. Nonetheless, the ability of these towns to generate money and effectively handle public finances remains constrained, particularly in rural and small areas.¹⁰

The significance of local taxation in Algeria is also paramount when viewed through the lens of social justice. Local tax is crucial in diminishing local governments' reliance on central government transfers and promoting a fairer allocation of resources throughout the nation by furnishing them with their revenue streams. Additionally, it fosters an environment that supports increased accountability and receptiveness of local governing bodies towards the requirements and inclinations of their constituents, particularly those belonging to marginalized populations.¹¹

Policymakers and scholars have recently acknowledged the significance of local taxes in Algeria. This recognition has prompted efforts to enact reforms to enhance local taxation's legal and institutional framework and facilitate local revenue mobilization. The proposed reforms encompass the implementation of novel tax mechanisms, such as the taxation of advertising billboards and second houses. Additionally, initiatives that will bolster taxpayer adherence and enhance intergovernmental collaboration will be undertaken.¹²

3.3. The legal and institutional framework of local taxation in Algeria:

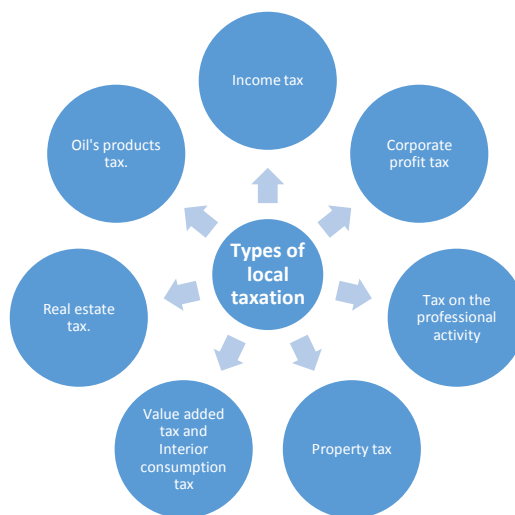
The legal and institutional framework for local taxation in Algeria includes a comprehensive array of legislation, regulations, and administrative protocols that govern collecting, overseeing, and allocating local taxes. The primary legislative frameworks regulating local taxation in Algeria are the Local Tax Code (Code des Impôts Locaux) and the Organic Law on Finances (Loi Organique des Finances). The Local Tax Code delineates the many categories of taxes that local governments possess the authority to impose, the taxable foundation upon which these taxes are calculated, the rates at which they are assessed, and the procedures governing the collection and enforcement of those taxes. The Code additionally delineates the respective roles and obligations of local governments, taxpayers, and tax authorities in administering local taxes. In contrast, the Organic Law on Finances establishes the comprehensive legislative structure governing public finances, delineating the concepts of fiscal decentralization and intergovernmental transfers.¹³

The management of local taxation in Algeria is entrusted to the Directorate General of Local Taxes (Direction Générale des Impôts Locaux), which operates within the Ministry of Interior, Local Authorities, and National Planning. The Directorate is responsible for guaranteeing adherence to the provisions outlined in the Local Tax Code, collecting local taxes, and allocating generated income to local governing bodies. Local governments are primarily responsible for recognizing their communities' specific requirements and priorities, establishing tax rates, and effectively managing the financial resources allocated to local public services. The legal and administrative structure of municipal taxes in Algeria encounters several obstacles, such as inadequate capacity and resources at the local level, inadequate intergovernmental cooperation, and ineffective enforcement measures. The issues have resulted in diminished tax compliance levels, insufficient revenue mobilization, and a shortage of financial autonomy for local governmental bodies. Nevertheless, ongoing endeavors are to revamp local taxes' legislative and administrative structure to bolster regional independence, accountability, and efficiency in delivering public services.¹⁴

3.4. Types of local taxation:

There are different taxes levied, which we can summarize in the following figure.

Fig.1. Types of local taxation.



Source: Prepared by the researchers.

Local taxation pertains to imposing taxes by local governing bodies on individuals and enterprises within their administrative boundaries. Various forms of local taxation exist in Algeria.

Property taxes are a prevalent method of local taxation in numerous nations, including Algeria. The imposition of these taxes pertains to the valuation of immovable assets, specifically land and structures. Property taxes play a crucial role in the financial sustenance of local governments, as they are levied based on the evaluated worth of the property and have the potential to yield substantial fiscal resources.¹⁵

Business taxes are an additional form of municipal taxation that may be levied on enterprises engaged in operations inside a particular jurisdiction. The taxes encompass taxes levied on corporate earnings, taxes imposed on transactions, and taxes targeting certain business operations. Business taxes aim to create fiscal resources for local governments, with specific tax rates and structures contingent upon the corporate entity's scale and nature.¹⁶

In conjunction with property and business taxes, local governments in Algeria can levy diverse fees upon inhabitants and businesses. The costs encompass expenses associated with various services, including garbage collection, water, sewer services, permits, and licenses. According to Ayanniyi (2022), local fees and levies are designed to financially support the provision of specified services or the regulation of activities.

It is imperative to acknowledge that the precise categories and levels of municipal taxation in Algeria may exhibit variations contingent upon local legislation and policies. Local governments possess the jurisdictional power to ascertain the various types and magnitudes of tax applicable within their respective areas while operating within established national statutes and regulations.¹⁷

In Algeria, the scope of municipal taxation comprises property taxes, commercial taxes, as well as various local fees. These many types of taxes serve as a means for local governments to generate the essential money required for financing public goods and services at the local level and facilitate regional development and governance.

4. The Current State of local taxation in Algeria.

4.1. Indicators of local taxation in Algeria

Local taxation indicators are of utmost importance when assessing the effectiveness of local tax practices in Algeria. The municipal taxes in Algeria are evaluated based on critical indicators specified by the Ministry of Finance (2021). The indicators encompassed in this set comprise the tax collection rate, revenue-to-GDP ratio, and base growth rate.

The tax collection rate serves as a measure to evaluate the efficiency of tax collection initiatives implemented by local government bodies. The computation entails dividing the total tax revenue by the total tax liability. According to the Ministry of Finance (2021), the tax collection rate in Algeria for the year 2020 was documented at 70.7%.

The measurement of the tax revenue-to-GDP ratio is a significant indicator that reflects the degree to which local taxation plays a role in the overall economy. The computation divides the total tax collection by the country's gross domestic product (GDP). According to the Ministry of Finance (2021), Algeria's tax revenue-to-GDP ratio for 2020 was documented at 7.2%.

The tax base growth rate quantifies the expansion of the tax base within a designated timeframe. The calculation involves dividing the change in the tax base by the initial tax base. Algeria's tax base growth rate in 2020 was reported to be 6.5% by the Ministry of Finance (2021).¹⁸

The tax collection rate, tax revenue-to-GDP ratio, and tax base growth rate are significant metrics that assess the efficacy of municipal taxation in Algeria. These indicators have the potential to assist policymakers in identifying areas that require improvement and in formulating plans to enhance the collection of local taxes and the generating of revenue.

4.2. Local taxation entirely beneficial to the municipalities:

This means that the taxes and fees are collected exclusively for the benefit of the city, and it can be listed as follows:¹⁹

Real estate tax refers to a form of direct taxation that is imposed on real property on an annual basis. The Taxes and Similar Fees Law can be categorized into two main components, namely:²⁰

According to Article 248 of the Tax Statute for Land and Buildings (T.S.F.L), real estate taxes are levied on constructed properties, irrespective of their legal standing within the national jurisdiction, unless explicitly exempted from taxation.

The real estate fee applies to undeveloped properties. The determination of an annual real estate fee is contingent upon undeveloped properties of various types unless expressly excluded from taxation as outlined in Article 261-d of the Taxation and Sustainable Finance Law (T.S.F.L).

The household garbage tax is levied annually, as Article 263 of the L.T.S.F stipulated. This fee is attributed to the owner or beneficiary of the property and is directly associated with the real estate fee for waste disposal from built properties. The collected funds are exclusively allocated to the municipality, and their distribution is determined through a decision made by the President of the Municipal People's Council. This decision is based on the council's deliberation and requires approval from the overseeing authority. Additionally, there is a specific tax known as the wedding tax, which is levied in areas where family wedding ceremonies are conducted with musical accompaniment. Before commencing the ritual, the fee is remitted via a receipt issued by the municipality. The determination is made in the following manner:

- The daily rate for parties lasting ranges from 500 to 800 Algerian dinars (DA).
- Parties exceeding are subject to a higher rate, ranging from 1000 to 1500 Algerian dinars (DA) daily.
- A health fee is imposed on meat, which is mandatory for the animal owner during slaughter. If the owner is not another merchant who slaughters a merchant and the animal, both parties are jointly responsible for paying this fee. The fee is calculated at 10 Algerian dinars (DA) per kilogram.

The cost associated with residing in a particular location. The taxation of this fee is determined on an individual basis, with a daily rate applied. The minimum tax amount per person per day is set at 50 DA, while the maximum is capped at 60 DA for individuals and 100 DA for families.

For hotels with a rating of three stars or more, the corresponding charges are 200 DA for three-star establishments, 400 DA for four-star establishments, and 600 DA for five-star establishments. The cost is collected only for the benefit of the respective municipality.

4.3. The reality of local taxation in Algeria:

Several obstacles and restrictions mark the current condition of local taxes in Algeria. According to the World Bank's report in 2021, the proportion of Gross Domestic Product (GDP) derived from domestic tax collection in Algeria was a mere 0.5% in 2019. This figure is notably below the average among upper-middle-income nations in the Middle East and North Africa. The suboptimal rate of revenue collection can be ascribed to various issues, encompassing insufficient legislative and institutional frameworks, ineffective enforcement methods, and limited public awareness regarding tax duties.²¹ In addition, it is worth noting that Algeria's existing local taxation framework predominantly depends on property taxes, constituting more than 80% of the total revenue generated through local taxes. The over-dependence on property taxes engenders a restricted tax foundation and constrains the capacity for revenue expansion. Furthermore, the tax system has regressive characteristics, as property taxes disproportionately impact low-income households.²²

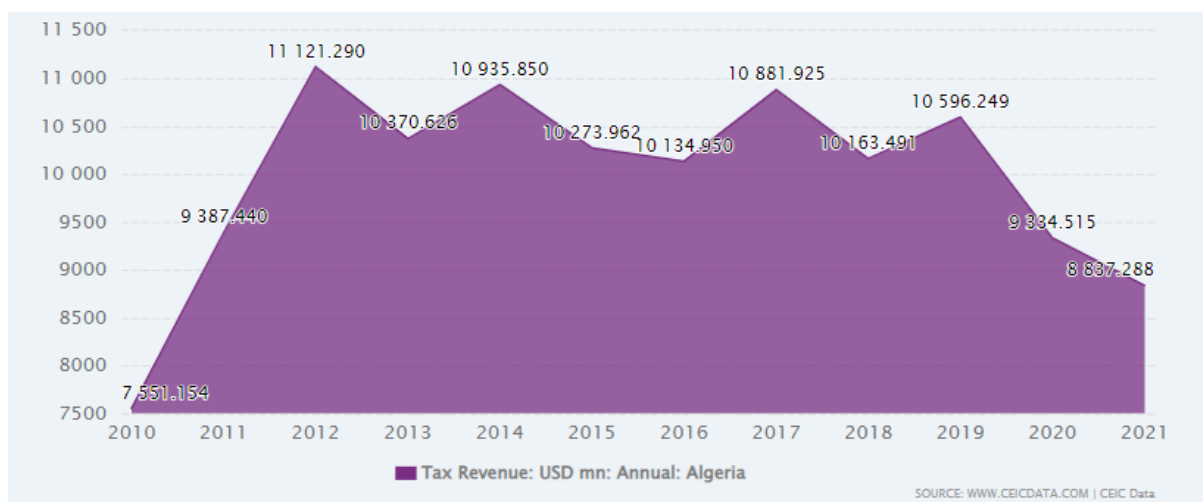
The local tax collection in Algeria has been considerably affected by the COVID-19 outbreak. The International Monetary Fund (2021) has reported that the epidemic has resulted in a decrease in economic activity and a reduction in tax revenue in Algeria. The current situation has imposed additional burdens on local governments in their efforts to deliver crucial public services amidst

decreased revenue.²³ The present condition of municipal taxation in Algeria is marked by many obstacles and constraints, encompassing inadequate rates of revenue collection, a limited tax base, and excessive dependence on property taxes. To effectively tackle these difficulties, it is imperative to implement extensive reforms to the legal and institutional frameworks that control local taxation. This entails extending the tax base, upgrading tax administration systems, and boosting public understanding and communication regarding tax duties.

4.4. The development of local taxation in Algeria:

The evolution of local tax revenues in Algeria (2010 – 2021) can be seen in the following figure:

Fig.1. Evolution of LOCAL tax revenues in Algeria from 2010 to 2021



Source: CEIC DATA, (2022), WWW.CEICDATA.COM

- The tax revenue of Algeria amounted to 8.837 billion US dollars in December 2021.
- This represents a decline compared to the preceding 9.335 billion US dollars recorded in December 2020.
- Algeria's tax revenue statistics are regularly updated annually, with an average value of 6.361 billion USD from December 1997 to 2021.
- The recorded data exhibited a peak value of 11.121 billion US dollars in 2012, while its lowest recorded value was 1.085 billion US dollars in 1999.²⁴

4.5. Local taxation partially beneficial to the municipalities:

The term "local taxation" refers to a collection of taxes and levies allocated at different rates to support the city, the Wilaya, the state, and the joint fund of local authorities. These allocations can be outlined in the table provided below:

Table 1. Local taxation is partially beneficial to the municipalities.

Tax on professional activity:	The annual tax pertains to the obligation of natural and legal entities that possess a professional establishment in Algeria and engage in commercial, non-commercial, or industrial activities that generate profits. As per Article 222 of the legislation about Direct Taxes and Similar Fees, the allocation of funds derived from the tax levied on professional activity is outlined within the article mentioned above: The allocation breakdown for the municipality's portion is 66%, while the state's contribution accounts for 29%. The Solidarity and Guarantee Fund for Local Authorities also constitutes 5% of the overall distribution.
Value-added tax:	This particular tax is among the most crucial indirect levies on consumption. This applies to the operational aspects of industries, commerce, or skilled trades. Furthermore, this tax is neutral as it does not impact the tax liability of legal taxpayers. The tax burden is ultimately borne by the final consumer, responsible for paying the tax and the price of the goods or services. As per the provisions outlined in Article 21 of the legislation mentioned above, the charge is levied at a mean rate of 19%. In contrast, Article 23 of the statute stipulates that the reduced rate is 9%. The revenue generated from this fee is allocated in the following manner: The allocation of funds is distributed as follows: 75% is given to the state budget, 10% is designated for municipalities, and the remaining 15% is allocated to the Solidarity and Guarantee Fund for local authorities.
Single flat tax:	As per Article 282 of the L.T.S.F, individuals and entities involved in various industrial, commercial, non-commercial, and craft activities, including craft cooperatives and traditional industries, are subject to the single flat tax system if their annual revenues do not exceed fifteen million dinars (15 000 000 DZD). However, those who have opted for the profit-based taxation method are exempted. Under this tax system, 40.25% of the tax proceeds are allocated to the municipality, 05% to the wilaya, 49% to the state, 0.5% to the Chamber of Commerce and Industry, 0.01% to the National Chamber of Handicraft, 0.24% to the Chamber of Handicraft and Professions, and 05% to the Common Fund of Local Communities.
Wealth or property tax:	This tax encompasses individuals' aggregate taxable assets, entitlements, and valuations. As per the provisions stated in Article 282 of the Tax and Similar Fees Law, the determination of proceeds from tax distribution on a property is outlined as follows: Seventy percent of the allocated funds are allocated to the state budget. In comparison, the remaining thirty percent is assigned to the local budget.

Source: Righi, A., (2022), The role of local taxation in enhancing local finance of local authorities in the shadow areas in Algeria -A case study of Bordj Zemoura municipality budget during the period (2015-2020)-, Algerian Journal Of Public Finance, 12 (01), p:93.

5. Challenges Facing Local Taxation in Algeria and Potential Solutions to Improve it.

5.1.The impact of the COVID-19 pandemic on local taxation collection in Algeria

The local taxation collection in Algeria has been considerably affected by the COVID-19 outbreak. Implementing government measures aimed at mitigating the transmission of the virus, such as the imposition of lockdowns and limits on movement, has led to a decrease in economic activity and, subsequently, a fall in the collection of local tax revenue.

In 2020, Algeria had a decrease in tax income collection due to the downturn in oil prices and the resultant economic slowdown, as stated by the International Monetary Fund (IMF, 2021). The

research also highlights that the pandemic has exacerbated pre-existing fiscal vulnerabilities within the non-hydrocarbon sector. This sector has experienced a deterioration in the government's budgetary situation due to the decrease in tax collection.

Moreover, the ongoing epidemic has highlighted the vulnerabilities in Algeria's current tax administration framework. The absence of technology and automation in the tax collection system has posed challenges in effectively collecting taxes within the ongoing pandemic, particularly considering the implemented social distancing measures.

The COVID-19 pandemic has significantly impacted the collection of local taxes in Algeria, further worsening existing budgetary vulnerabilities and emphasizing the necessity for fundamental reforms in the tax administration system. The proposed reforms should encompass the digitization and automation of the tax collection system, as well as the enhancement of the legislative and administrative framework that governs municipal taxation.²⁵

5.2. Challenges facing local taxation in Algeria and Tax collection problems.

Several challenges impede the collection of municipal taxes in Algeria, exerting a significant impact on the revenue of local government entities. The insufficiency of municipal taxation's legislative and institutional framework represents an important concern. Outdated and intricate legal frameworks provide administrative obstacles that constrain the revenue generation capacity of local governments.²⁶ The informal economy impedes the collection of municipal taxes in Algeria. Tax authorities face challenges in collecting tax income from the informal sector, encompassing unregistered enterprises and undisclosed earnings. The presence of the informal economy has negative implications for the tax base, impacting the fairness and effectiveness of municipal taxation.²⁷

Algeria exhibits a chronic pattern of tax evasion and noncompliance. A subset of individuals and corporations engage in tax avoidance or income falsification. This phenomenon leads to a decrease in tax revenue for local governments, impeding their capacity to deliver vital services and develop infrastructure. Local tax administrations in Algeria may encounter challenges related to their administrative competence. The difficulties at hand encompass a shortage of proficient labor, antiquated technological infrastructure, and inadequate tax collection and enforcement measures. The potential failure of local taxing initiatives can be attributed to insufficient organizational practices.

Taxpayers and governmental entities encounter numerous problems when dealing with intricate tax legislation. The complex nature of tax legislation and standards can lead to challenges, including misunderstanding, inaccuracies, and inefficiencies in adhering to tax obligations. The simplification of tax laws and procedures facilitates the enhancement of compliance and administrative efficiency. Tax incentives and exemptions the government provides can potentially decrease the revenue generated from local taxes. The purpose of these incentives is to stimulate investment and foster economic expansion; nonetheless, there is a potential for these measures to undermine local taxation systems and give rise to disparities in tax burdens.²⁸

The obstacles faced in tax collecting in Algeria: A lack of comprehensive awareness of taxpayer finances may lead to challenges in the collection of taxes. Many individuals and corporations may lack comprehension of their tax obligations and the appropriate means for

remitting taxes. The elements can potentially contribute to errors in tax collection, inefficiencies in the process, and noncompliance with tax regulations.

The cash-based nature of Algeria's economy presents significant challenges in tax collection and monitoring. Monitoring cash transactions can provide challenges, resulting in the underreporting of income and instances of tax evasion. Implementing electronic payment methods and financial reporting systems can potentially mitigate this issue.

The presence of corruption could potentially impede the efficacy of tax collection in Algeria practices and instances of bribery. Unethical behavior has the potential to result in many illicit activities, such as tax evasion, favoritism, and manipulation of tax assessment and collection processes. These problems can be resolved by implementing measures to enhance transparency in tax administration and combating corruption.

Formal banking institutions in rural areas are limited, posing challenges to the tax-collecting process. The absence of financial services could challenge taxpayers in meeting their tax obligations. Tax authorities may encounter challenges in the process of verifying and collecting taxes. The problem can be addressed by implementing strategies to enhance financial inclusion and foster the adoption of digital payment systems.

The lack of adequate taxpayer education and support has the potential to impede the process of tax collection. Many taxpayers lack awareness of their legal entitlements and responsibilities or encounter difficulties accessing tax-related assistance. The enhancement of tax compliance and supply can be achieved using taxpayer education and the provision of support services.

The Algerian government must prioritize resolving these challenges to enhance local taxation and facilitate the tax collection process, promoting regional development and governance.

Another concern is the constrained tax foundation, primarily property and business taxes. The limited scope of the tax base constrains the income potential of municipal taxes, hence imposing an inequitable burden on a select group of taxpayers. Furthermore, this practice perpetuates tax evasion and avoidance, decreasing overall revenue.

The limited capacity and technical expertise within Algerian municipal administrations pose obstacles to effectively implementing and collecting local taxes. Numerous local governments encounter challenges in effectively implementing and enforcing tax regulations due to limited resources and a lack of proficiency. As a result, the effectiveness of tax collection and rates of compliance decline, leading to a fall in revenue generated from municipal taxes.²⁹ The tax-to-GDP ratio reported is below the mean for Middle Eastern and North African countries (24.6%) and other nations that export oil (25.7%).³⁰ The analysis emphasized the importance of improving the collection of municipal taxes to bolster government finances and mitigate reliance on oil.³¹ The collection of municipal taxes in Algeria is confronted with challenges related to inadequate tax compliance, insufficient tax administration, and restricted financial and administrative autonomy for local governments. The Algerian government has used many strategies for tax collecting, including implementing local tax collection methods. Further endeavors are required to enhance tax compliance, rationalize tax protocols, and enhance local authorities' fiscal and administrative autonomy.

5.3. Potential Solutions to Improve Local Taxation in Algeria

To enhance municipal taxation in Algeria, it is imperative to undertake comprehensive and well-coordinated measures to tackle the challenges at hand effectively. One potential course of action involves reforming municipal tax legislation and institutions. The proposed modification aims to enhance the efficiency of tax legislation, alleviate administrative costs, and enhance the effectiveness of provincial tax enforcement. Another potential alternative is the expansion of the tax base. To accomplish this objective, implementing a tourism tax, municipal sales tax, or natural resource tax can be considered. Expanding the tax base would result in augmented revenue generation and diminish dependence on a limited number of persons. This proposal can potentially enhance municipal taxation systems' equity and long-term viability. Another crucial aspect to consider is municipal governments' enhancement of tax enforcement. This goal can be accomplished by implementing tax authority training programs, improving the tax administration system, and providing technical support to local governments. These initiatives would enhance compliance through the enhancement of tax collecting efficacy. Additional alternatives include heightened public consciousness and enhanced interpersonal exchange. Local governments must have efficient communication strategies to disseminate information on tax obligations to both individuals and businesses. Additionally, these initiatives must emphasize the advantages associated with tax payment and elucidate how tax revenue is allocated toward the provision of public services. This can enhance public confidence in the tax system and foster adherence to tax regulations.³² To enhance Algerian local taxes, it is imperative to implement a range of measures to address existing obstacles. This study offers limited or insufficient responses. Nevertheless, implementing these measures serves as a foundation for advancing regional taxes in Algeria, facilitating local governments' enhancement of public services. Potential Enhancements to Local Taxation in Algeria:³³

The enhancement of tax administration is contingent upon the ability and efficacy of local tax administration. The objective can be attained by allocating resources towards technological advancements, providing comprehensive training for tax authorities, and implementing contemporary tax collection techniques. The enhancement of tax administration can potentially optimize tax operations, mitigate administrative intricacies, and bolster tax compliance.

The Facilitation of Tax Regulation The facilitation of tax regulations and procedures can enhance taxpayers' comprehension and adherence. The implementation of transparent tax regulations serves to mitigate misunderstandings and errors, thus bolstering tax compliance. In the pursuit of simplification, it is imperative to prioritize simplicity, the elimination of redundant prerequisites, and the provision of explicit instructions to taxpayers.

The enhancement of tax compliance can be facilitated by taxpayer education and assistance. The provision of information regarding taxpayer rights and the rewards associated with adhering to tax rules has the potential to foster tax compliance. The provision of support in tax compliance can potentially enhance compliance rates.

It is imperative to acknowledge and tackle the informal sector. To enhance tax collection and augment municipal revenue, it is essential to target the informal sector. Implementing strategies such

as formalization promotion, establishing rigorous monitoring mechanisms, and providing incentives for firms to operate within the formal sector can effectively mitigate the size of the informal economy and enhance tax revenue generation.

To enhance revenue collection, it is imperative to mitigate tax administration corruption. Implementing effective anti-corruption measures can reduce bribery and corruption within tax collection while concurrently fostering transparency and ensuring the responsible conduct of tax authorities.

Promoting digital payment solutions has the potential to enhance the efficiency of tax-collecting processes and mitigate the reliance on cash transactions. Digital payment systems have the potential to improve transparency, facilitate efficient record-keeping, and enable real-time monitoring of tax transactions, thereby simplifying the process of tracking and collecting taxes.

Collaboration and information exchange across many government and tax agencies can enhance tax administration and enforcement. Implementing coordinated actions, the sale of data, and the adoption of best practices have enhanced tax collection and enforcement.

The following prospective approaches can address the local taxation challenges faced by Algeria. This can enhance tax collection, promote compliance, and augment local government revenue.

Nevertheless, the implementation of digital transformation in the domain of municipal revenue collection necessitates substantial investments in information and communication technologies, technical proficiencies, as well as legal and regulatory frameworks. The successful execution of implementation necessitates the active collaboration and coordination of tax authorities, local governments, and taxpayers.³⁴

6. CONCLUSION

In conclusion, it can be inferred that the points above lead to the logical deduction that The effectiveness and efficiency of local taxation in Algeria face numerous hurdles that impede the resource allocation process for local governments. Various challenges, including a shortage of solid tax culture, inadequate financial resources and equipment, and insufficient administrative expertise, impede the successful application of local taxation. The emergence of the COVID-19 pandemic has exacerbated preexisting challenges about collecting local tax revenues, rendering their acquisition more arduous.

Results: This study reached the following results:

- In the local context, Algeria encounters challenges to limited income production, a narrow tax base, and excessive dependence on subsidies provided by the central government. Based on Algerian municipal taxation metrics, it is seen that property tax constitutes the most significant proportion of revenue, followed by business and professional taxes. The effectiveness of local tax collection is impeded by challenges related to taxpayer compliance and insufficient government enforcement. Comprehensive reforms are necessary to enhance the legal and institutional framework of local taxation, broaden the revenue base, increase the competence of local governments, and

improve public awareness. The efficacy of the Algerian local government is contingent upon implementing these reforms.

- The prospects of municipal taxes in Algeria are strongly intertwined with the country's economic and political stability and the effectiveness of tax administration and enforcement. Further research and analysis are required to evaluate the impact of recently implemented policies in Algeria on the existing tax legislation.
- The digitalization process can potentially generate favorable changes in Algeria's local tax collection system, such as enhanced compliance levels and decreased operational expenses. The successful execution of a project requires substantial financial resources, encompassing the expansion of information and communication technology capabilities, the improvement of technical skills, and the adaptation of policies.

Recommendations: Several suggestions and guidance exist to activate the local taxation collection in Algeria and reduce tax evasion. So, in light of the preceding findings, we propose:

- ✓ The study on taxation in Algeria proposes strategies prioritizing enhanced tax efficiency and productivity. To enhance the efficacy of present tax legislation, it is imperative to establish a solid groundwork for bolstering regional tax collection. To enhance the effectiveness of local tax collection and enforcement, local authorities must allocate financial resources towards crucial components such as tax collection systems and training for tax officials.
- ✓ The focus of taxpayer education should be on highlighting the advantages of local tax payments to promote the growth of development initiatives. The central administration must provide increased financial resources and technology assistance to support nearby controllers.
- ✓ The resolution of local taxation difficulties in Algeria necessitates adopting a collaborative approach involving taxpayers, private enterprises, government officials, and local governing bodies. The improvement of taxation efficiency in Algeria enables the country to stimulate regional development and reduce its reliance on financial assistance from the central government.

7. Bibliography List:

¹ Squires, G., & Heaney, M. T., (2013), *Introduction to local government: Finance*, Routledge, p:18.

² Annoni, P., & Florio, M., (2005), *The economics of EU cohesion policy*, Oxford University Press, p: 37.

³ Brian, Dollery., Harry, Kitchen., Melville, McMillan., Anwar, Shah. (2020). *Local Tax Administration*. 17-38. doi: 10.1007/978-3-030-36725-1_2, p :18.

⁴ Dick, M., Carpenter., Kyle, Sweetland., Jennifer, McDonald. (2021). *A Case Study of Municipal Taxation by Citation*. *Criminal Justice Policy Review*, 088740342110203-. Doi: 10.1177/08874034211020353, p:1.

⁵ Maryna, Pravdiuk. (2022). *Local taxation: problems of current legislation*. *Scientific Journal of Polonia University*, 51(2):290-298. doi: 10.23856/5134, p :292.

⁶ Viktor, Trasberg., Christian, Raffer., Antti, Moisio. (2021). *Local Government Tax Structure*. 333-355. doi: 10.1007/978-3-030-67466-3_19, p:333.

⁷ Geoffroy, N. N. P., Romuald, T. W., & Clément, M. K. A. (2020). *Décentralisation fiscale et croissance des dépenses locales dans les collectivités territoriales décentralisées au cameroun : cas de la ville de douala*. *European Scientific Journal ESJ*, 16(4). <https://doi.org/10.19044/esj.2020.v16n4p74>

⁸ Annoni. P & Florio. M, (2005), *op-cit*, p: 38.

- ⁹ Gana, N., (2018) *La fiscalité locale en Algérie: entre archaïsme et modernité*, *Revue Algérienne des Sciences Juridiques, Politiques et Economiques*, 8(1), P : 22.
- ¹⁰ Hamouda, S., (2020), *Fiscal decentralization in Algeria: An analysis of the legal and institutional framework*, *Mediterranean Journal of Social Sciences*, 6(1), 2015, P: 355.
- ¹¹ Belhadj, M., (2020), *Fiscal decentralization in Algeria: State of play and prospects*, *Mediterranean Journal of Social Sciences*, 11(3), p:61.
- ¹² Benkraiem, R. (2016), *La fiscalité locale en Algérie: État des lieux et perspectives*. *Revue de l'Entrepreneuriat*, 15(1), p: 19.
- ¹³ Belhadj, op-cit, p-p: 57-58.
- ¹⁴ Ministry of Interior, (2022), *Local Authorities, and National Planning. Impôts locaux*. Retrieved from: <http://www.interieur.gov.dz/index.php/fr/impots-locaux>.
- ¹⁵ Pita, L. L. and Močević, A. (2018). *Analysis of taxation of property in bosnia and herzegovina*. *Central European Public Administration Review*, 16(2), 157-178. <https://doi.org/10.17573/cepar.2018.2.08>, p: 159.
- ¹⁶ Mansour, M. (2015). *Tax policy in mena countries: looking back and forward*. *IMF Working Papers*, 15(98), 1. <https://doi.org/10.5089/9781484364789.001>
- ¹⁷ Ayanniyi, A. D. (2022). *Impacts of taxation on economic development in Nigeria*. *International Journal of Innovative Research and Development*, 11(2). <https://doi.org/10.24940/ijird/2022/v11/i2/feb22049>
- ¹⁸ Ministry of Finance.,(2021), *Indicators of the Performance of Local Taxation*, Retrieved from https://www.mf.gov.dz/site_en/index.php?option=com_content&view=article&id=727&Itemid=722
- ¹⁹ Righi, A., (2022), *The role of local taxation in enhancing local finance of local authorities in the shadow areas in Algeria -A case study of Bordj Zemoura municipality budget during the period (2015-2020)-*, *Algerian Journal Of Public Finance*, 12 (01), p-p: 92-93.
- ²⁰ *Law on Taxes and Similar Fees*, (2021), pp. 67-70
- ²¹ Kahlaoui, A., & Benamar, A., (2021), *The efficiency of local taxation in Algeria: A DEA analysis*. *Journal of Public Affairs*, e2693., P-P:76-78.
- ²² World Bank., (2021), *Revenue statistics in the Middle East and North Africa.*, Retrieved from <https://www.worldbank.org/en/region/mena/brief/revenue-statistics-in-the-middle-east-and-north-africa>
- ²³ International Monetary Fund.,(2021), *Algeria: Staff Concluding Statement of the 2021 Article IV Mission*, Retrieved from <https://www.imf.org/en/News/Articles/2021/02/22/pr2166-algeria-staff-concluding-statement-of-the-2021-article-iv-mission>
- ²⁴ <https://www.ceicdata.com/en/indicator/algeria/tax-revenue>
- ²⁵ International Monetary Fund, (2021), *Algeria: Staff Concluding Statement of the 2021 Article IV Mission*. *IMF Country Report No. 21/62*, Retrieved from <https://www.imf.org/en/Publications/CR/Issues/2021/03/08/Algeria-Staff-Concluding-Statement-of-the-2021-Article-IV-Mission-50305>
- ²⁶ Bensalem, H., (2019), *La fiscalité locale en Algérie: Analyse critique des principaux problèmes et des perspectives de réforme*. *Revue de la Faculté des Sciences Economiques et de Gestion*, 6(2), p:213
- ²⁷ Kahlaoui & Benamar,(2021), op-cit, p. 72
- ²⁸ Rezki, H., (2017), *La fiscalité locale en Algérie: Etat des lieux et perspectives*. *Revue Algérienne des Sciences Juridiques, Politiques et Economiques*, 7(2), p : 119.
- ²⁹ Kesraoui, S., (2019), *La fiscalité locale en Algérie: Enjeux et défis*. *Revue des Sciences Economiques et de Gestion*, 4(1), p : 90.
- ³⁰ World Bank, (2018), *Algeria - Local taxation in Algeria: Diagnosis and recommendations for reform*. *World Bank Group*, Retrieved from <https://openknowledge.worldbank.org/bitstream/handle/10986/29924/125572-WP-P157460-PUBLIC-LTA-ENG.pdf?sequence=1&isAllowed=y>
- ³¹ International Monetary Fund. (2020). *Algeria: Selected Issues*. *IMF Country Report No. 20/159*. Retrieved from <https://www.imf.org/en/Publications/CR/Issues/2020/07/14/Algeria-Selected-Issues-49404>
- ³² Blom-Hansen, J., Baekgaard, M., & Serritzlew, S. (2014). *Tax limitations and revenue shifting strategies in local government*. *Public Budgeting & Finance*, 34(1), 64-84. <https://doi.org/10.1111/pbaf.12029>
- ³³ World Bank., (2019), *Algeria - Digital transformation for better governance*. *World Bank Group*, Retrieved from <https://documents.worldbank.org/en/publication/documents-reports/documentdetail/829291571862212654/algeria-digital-transformation-for-better-governance>

Boulila, H. and Benbouziane, M. (2018). Austerity in time of crisis: a solution or a dangerous idea? Evidence from Algeria. Etikonomi, 17(1), 11-24. <https://doi.org/10.15408/etk.v17i1.6799>

³⁴ *World Bank,(2018), op-cit.*