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Costs of Distrust: The Virtuous Cycle of Tax Compliance in Jordan

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Abstract Tax compliance has been extensively researched. Yet, the classic question 'why do people pay taxes?' remains unanswered. In Jordan, tax evasion is widespread. The state and citizens have been trapped in a continuous hide-and-seek game, which has taken the form of a virtuous cycle. This paper investigates tax evasion along with the most noticeable features of the Jordanian tax system. It also highlights how the virtuous cycle of tax evasion has been established and what could possibly be a way out of it. We argue that sociocultural values are the most prominent cause for tax evasion. That is, the procedures of state formation and functionality in Jordan have created mutual distrust between the state and its citizens. Having been raised in a community characterized by deep distrust, tax evasion is no longer considered immoral by substantial numbers of the Jordanian population. We argue that successive governments need to create a high-trust-based culture and formulate strategies that serve to acquire normative ethical values in order to enhance voluntary compliance. The way to accomplish this necessity is through enforcing the state's transparency and accountability. The taxation system needs to concentrate on income tax rather than raise tax rates on essential commodities to collect substantial tax revenues. Thus, further reform of the taxation system along with a reduction in tax incentives need to be considered. Moreover, lowering the exceptionally high personal income tax threshold would bring Jordan in line with its peers, expand the base, and introduce more progressivity. There would also be a scope to introduce a minimum tax based on sales as a tool to address tax evasion.

Keywords Tax evasion · Tax compliance · Ethics · Jordan

Introduction

The economics of a crime model based on Rational Economic Man (REM) stresses that evading taxes will be eliminated only through highlighting individual risk aversion that is associated with the subsequent punishments for tax evasion (Allingham and Sandmo 1972). Empirical support for this model, however, is far from being ultimate. For instance, while Clotfelter (1983) criticizes the model, Cowell (1985) finds support. The inclusion of tax ethics (Song and Yarbrough 1978; Lewis 1982) has made the debate even more complex. In the early 1990s, theories based on social norms (Alm et al. 1992) and the ethicality of tax evasion (McGee 1994) joined the debate.[1] More recent literature on the issue of tax compliance is based on an alternative approach to the 'expected utility theory' (e.g., cumulative prospective theory, rank dependent expected utility theory) as proposed by behavioral economics (Dhami and al-Nowaihi 2007; Piolatto and Rablen 2014). Such variant approaches, however, have encouraged scholars to conduct empirical analyses on peoples' decisions to evade tax payments.

Tax non-compliance is actually an inevitable fact on the social level (Cowell 1990; Alm et al. 2004; Schneider et al. 2010). It is considered a big problem that has topped the list of corruption practices in third world countries (Levin

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[1] For an overview see: Cowell (1990), Andreoni et al. (1998), and Slemrod (2007).

and Widell 2014), including Middle Eastern countries (Imam and Jacobs 2014), in a way that reduces tax revenues. Several studies revealed that tax evasion in Jordan is common (Kettaneh 1998; Abu-Nassar and Mubaideen 2000; Alkhdour 2011; IMF 2014). Indeed, a benchmarking study that the USAID Jordan Fiscal Reform Project II conducted in 2010 revealed that Jordan's Personal Income Tax voluntary compliance rates are well below international standards and that in order to come closer to international standards, Jordan should increase the rate of income tax voluntary compliance several-fold (Chapman 2011). Moreover, research on the shadow economy in Jordan indicated that this aspect of taxation as a percent of GDP increased from 19.4% in 1999 to 20.4% in 2005 (Schneider 2005; Schneider et al. 2010). Yet, Jordanian citizens pay more than a quarter of their annual incomes for taxes and fees (Moore 2004).

Tax evasion studies suggest that despite tax evasion's being a criminal action, it is primarily a result of citizens' unwillingness to pay their due taxes, rather than a result of underground economic activity (Leiker 1998). Moreover, its vast extent can only be highlighted when the tax collection process is grossly inefficient and corrupt, or when Jordanians consider tax evasion a morally acceptable activity. Despite of its cultural acceptability, those citizens are committing an offense regardless of the role of the state in the economy, since a crucial aspect of living in a modern state is the willingness of its citizens to share public expenditure (Asher 2002). Yet, there are numerous ways to expel this obligation. If tax-related actions and governmental tax motives lacked taxpayer's trust and if revenues were not collectable in the absence of coercion, then citizens will resort to tax evasion. It is the purpose of this paper to argue that tax evasion in Jordan is largely the result of the mutual distrust between the citizens and the state, which makes tax evasion a morally acceptable, if not justified, action.

The rest of the paper is organized as follows. The next section presents the basic characteristics of the Jordanian tax system. We then proceed to document the size of the underground economy and the extent of the tax evasion. Subsequently, we discuss how the application the general behavior of the state lead citizens who can evade taxes to do so. Finally, last section summarizes and concludes the paper.

The Jordanian Tax System

Just like in most non-oil counties, taxes are considered the main source of governmental revenues in Jordan (Alkhdour 2011; Malkawi and Haloush 2008). Margalioth (2003) argued that the role of taxes in Jordan has developed dramatically to enable the government to implement its fiscal policy in order to become more independent. Yet, according to the European Neighborhood and Partnership Instrument (2010), one of the Jordan's main economic weaknesses is its dependence on international grants to finance its fiscal deficit and its inefficient direct tax system (The European Commission 2010). Likewise, Jordan's economy is suffering from limited resources, mainly water and energy, and a chronic fiscal deficit, thus making the provision of necessary funding to meet the requirements of economic and social development is extremely difficult. Yet, government spending in Jordan is mainly financed by heavy taxes and fees. In general, the per capita tax in Jordan has risen four times since 1985 as the taxation system started to rely heavily on indirect taxes. The average tax burden in its broadest sense, as measured by tax revenues and non-tax and social insurance to GDP, has reached in the year 2011 about 25% of GDP—a high rate if compared to neighboring countries such as Syria or Egypt, where the percentage hovers around 17 and 14%, respectively, or even to some developed countries, such as Japan and the USA, in which the average tax burden is 27% of GDP (Nsour 2014).

Income sources subject to taxation in Jordan could be divided into three main sources. The first source is 'income from employment,' which includes salaries, wages, bonuses, rewards, compensations, and any monetary or non-monetary privileges earned by the employee from employment, whether in the public or private sectors. The second income source is referred to as 'business activity income' which includes commercial, industrial, agricultural, professional, service, or handicraft activities that are carried out by a person in order to gain profits. Finally, the third source of income is 'investment income' which consists of any income incurred from sources other than income from employment or business activity (ITL 2014). The Gross income is the accumulation of all three sources of income. However, the ITL (2014) distinguished between two types of persons that might be subjected to taxation: the 'physical' and 'legal' persons. A physical person is identified as a person who actually resides in Jordan for a period not less than 183 days during the year whether the period of residence was connected or not. The physical person is a term that also underlies the Jordanian employee who works for the government for any official or public institution in or outside Jordan. On the other hand, a legal person is defined as the legal body that is either established or registered in Jordan and administers a type of business or service approved of in accordance with the laws abided by in Jordan. A legal person could also be a shareholding business of which the government or any of the official or public institutions operating in Jordan possess over 50% (ITL 2014).

The Jordanian government uses a plethora of taxes to collect the necessary revenues. A basic characteristic of the tax system is that it relies on indirect taxes (i.e., 70% of tax revenues in 2013) (see Table 1). The income tax law is intended to sustain justice and protect taxpayers from any potential bias they might be exposed to. This law was initially legislated in 1933. With time, this law underwent to modifications in order to financially support state and public welfare (Malkawi and Haloush 2008). For instance, in 1945, handicrafts and various forms of trade and occupations were set among the main sources of income subject to taxation. Later on in 1964, Jordan issued Income Tax Law No. 25 of 1964 which introduced exempted incomes, in addition to family and personal exemptions, and set up a specialized court to deal with tax cases. The government endorsed Income Tax Law No. 34 for 1982 which set forth self-assessment returns for the first time. Moreover, in 1985, income taxes that are liable to taxation were extended to include not only income generated in Jordan, but also that which is generated abroad. Yet, Alkhdour (2011) argued that before 1989, the tax system in Jordan suffered from a high level of inefficiency and over-complexity. That is, the tax base was narrow with many tax tranches and low tax collection rates. Government revenues were dependent on inelastic and volatile sources such as foreign grants and non-tax revenues from public corporations' profits and government fees and licenses.

Ultimately, Jordan adopted structural economic adjustment programs through cooperation with the International Monetary Fund (IMF) and the World Bank to be able to reform the taxation system. Since the adoption of the first IMF economic adjustment program in 1989, the Jordanian government has made significant efforts directed toward reforming the inefficiency of the tax system, increasing the buoyancy in the tax revenues, and minimizing its reliance on non-tax revenues (Malkawi and Haloush 2008; Alkhdour 2011; IMF 2014).The Jordanian government stressed the importance of replacing the domestic production fees with a consumption tax in 1989. However, in order to increase its tax revenues and boost its economy, the Jordanian government decided to replace the consumption tax with a general sales tax (GST) in 1994. At the initial implementation of the GST, while the tax percentage on luxury commodities was 20%, the majority of domestic and imported commodities were taxed at a rate of 7%. In the years thereafter, the GST rate has been gradually increased to 10, 13, and 16% in 1995, 1999, and 2004, respectively. This increase in the GST rate was accompanied by imposing taxes on a wider range of services most of which were not subject to taxation beforehand. By contrast, from 1989 to 2004, Jordan reduced its maximum tariff rate from over 300 to 35%, while a large amount of tariffs were abolished under free trade agreements signed by Jordan and also due to Jordan joining the World Trade Organization (WTO) in 2000. In addition, individual income tax rates were reduced in 1991, making 10 tranches with rates ranging from 5 to 45%, instead of 12 tranches with rates ranging from 5 to 55% (Alkhdour 2011). Corporate tranches were also reduced in 1991 from 5 tranches with rates varying from 35 to 55% to 4 tranches with rates varying from 38 to 55%.

Just like the GST, significant amendments to the income and corporate tax laws were implemented over time. For instance, in 1996, the individual tranches were reduced to 6 tranches with a maximum rate of 30%, and the corporate taxes were reduced to 3 (i.e., 15, 25, 35%) associated with the nature and economic sector of the corporation. Finally, while in 2009 the individual tranches were reduced to 2 tranches with a maximum rate of 14% and the corporate tax rates were reduced to (14, 24, and 30%), in 2014 they were raised to three tranches for individuals (7, 14, and 20%) and the corporate tax rates were raised to (14, 20, 24, and 35%). These legislative reforms were also accompanied by institutional reforms, the result of which is the establishment of a unified Income and Sales Tax Department (ISTD) by 2004. Although the law meets immediate fiscal adjustment needs, there is a missed opportunity and will likely need to be revisited in the future. It is the only option, in addition to reducing tax incentives, to provide substantial revenue while making the tax system fairer.

Reform has to rest on two main pillars, particularly the new income tax law and a reduction in tax incentives, which could collectively generate up to 2.5% of GDP (IMF 2014). Simultaneously, stronger tax administration could improve compliance and help reduce tax arrears, contributing up to 0.5% of GDP. The income tax law is also anticipated to raise revenue by 0.7% of GDP. Yet, there was scope to go much further, specifically to the income tax threshold, which is by far the highest in the region (only about some 3% of the population is currently paying income taxes). That is, the new income tax law should aim at bringing the tax burden in line with that of regional peers, since Jordan has one of the lowest levels of revenue from such tax (see Fig. 1). At the same time, tax incentives should be reduced. A published report on existing tax incentives shows that foregone general sales tax revenue amounted to about 2% of GDP in 2012 (IMF 2014). Therefore, the Jordanian authorities are required to streamline such incentives, including by eliminating in particular the exemptions on services and curbing incentives provided to economic zones. The authorities need also to go more strongly after tax evasion, including by strengthening penalties and modernizing its audit programs in line with international standards. Removing sales tax exemptions would help to streamline revenue administration.

Table 1 Jordan: Central Government: summary of fiscal operations, 2013–2019 (in percent of GDP)

	Act. 2013	Prog. 2014	Projections					
			2014	2015	2016	2017	2018	2019
Total revenue and grants	24.1	28.3	29.9	27.9	28.0	28.1	27.1	27.0
Domestic revenue	21.5	22.9	22.9	23.8	24.1	24.1	24.1	24.1
Tax revenue, *of which*:	15.3	15.9	16.3	17.0	17.3	17.3	17.3	17.3
Taxes on income and profits	2.9	2.9	2.9	3.2	3.5	3.5	3.5	3.5
General sales tax	10.6	11.1	11.4	11.1	11.1	11.1	11.1	11.1
Taxes on foreign trade	1.4	1.4	1.4	1.4	1.4	1.4	1.4	1.4
Other taxes	0.5	0.7	0.7	1.3	1.3	1.3	1.3	1.3
Non-tax revenue	6.1	7.0	6.6	6.8	6.8	6.8	6.8	6.8
Grants	2.7	5.3	7.0	4.2	4.0	4.1	3.0	2.9
of which: unidentified	–	–	0.0	0.0	1.0	1.1	0.0	0.0
Total expenditures, net lending, other use of cash	35.3	38.6	39.0	34.7	32.2	31.0	29.8	29.8
Current expenditure	25.4	26.4	26.1	25.4	25.3	25.0	24.8	24.8
Wages and salaries	5.3	5.3	5.3	5.1	4.8	4.6	4.6	4.6
Interest payments	3.1	3.9	3.8	3.7	3.8	3.7	3.5	3.5
Domestic	2.7	3.3	3.1	2.9	3.1	3.0	2.7	2.6
External	0.4	0.6	0.6	0.8	0.7	0.7	0.8	0.9
Military expenditure	7.5	7.4	7.4	7.2	7.2	7.2	7.2	7.2
Fuel subsidies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Food subsidy	1.1	1.1	1.1	0.8	0.8	0.8	0.8	0.8
Transfers, *of which:*	7.3	7.4	7.3	7.3	7.3	7.3	7.3	7.3
Pensions	4.4	4.3	4.3	4.3	4.3	4.3	4.3	4.3
Targeted payments for energy	0.8	0.8	0.6	0.6	0.6	0.6	0.6	0.6
Transfer to health fund	0.5	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Other transfers	1.6	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Purchases of goods and services	1.1	1.3	1.3	1.3	1.3	1.3	1.3	1.3
Capital expenditure	4.3	5.0	5.0	5.0	5.0	5.0	5.0	5.0
Net lending	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Transfer to NEPCO 1/	5.1	7.2	7.6	4.3	1.9	1.1	0.0	0.0
Transfer to WAJ 1/	0.9	0.0	0.2	0.0	0.0	0.0	0.0	0.0
Adjustment on other receivables and payables (use of cash)	−0.3	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total balance from above the line	−11.2	−10.3	−9.0	−6.8	−4.1	−2.9	−2.7	−2.8
Statistical discrepancy, net	0.1	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance without additional measures	−11.1	−10.3	−9.1	−6.8	−4.1	−2.9	−2.7	−2.8
Additional measures needed	0.0	0.0	0.0	0.0	1.0	1.1	1.6	1.6
Overall balance after all measures	−11.1	−10.3	−9.1	−6.8	−3.2	−1.7	−1.0	−1.2
Financing	11.1	10.3	9.1	6.8	3.2	1.7	1.0	1.2
Foreign financing (net)	3.1	2.2	3.4	0.8	0.9	1.4	1.3	1.1
Domestic financing (net)	8.0	8.1	5.0	6.0	2.3	0.4	−0.3	0.1
Privatization proceeds	0.0	0.0	0.7	0.0	0.0	0.0	0.0	0.0
Memorandum items:								
Primary government deficit excluding grants	−10.7	−11.7	−12.3	−7.2	−3.3	−2.1	−0.5	−0.5
Government and guaranteed gross debt	86.4	90.0	89.3	90.4	88.1	84.5	80.6	77.2
Of which: External	26.6	29.7	30.6	31.3	29.8	28.5	27.3	26.3

Table 1 continued

	Act. 2013	Prog. 2014	Projections					
			2014	2015	2016	2017	2018	2019
Government and guaranteed net debt	79.3	86.1	85.3	86.7	84.6	81.2	77.6	74.4
GDP at market prices (JD millions)	23,852	25,914	25,747	27,741	29,917	32,155	34,475	36,927

Source: adapted from IMF report (2014, p. 26)

1/For 2013–14, transfers to NEPCO and WAJ include government repayment of guaranteed debt. In 2015, only transfers to NEPCO include government repayment of guaranteed debt. From 2016 onwards, the program assumes the utilities will repay their own debt

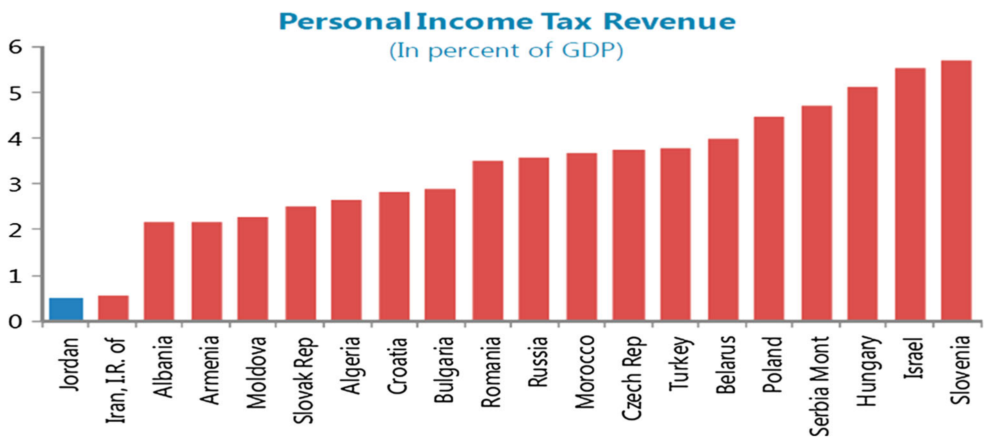

Fig. 1 Personal income tax revenue. *Sources*: IMF report (2014, p. 10)

Tax regulations in Jordan are derived from article 111 of the Jordanian Constitution as a main source. Yet, the article does not specify all taxes that may be imposed. Rather, it imposes general principles of taxation. Thus, the government has more liberty to enact statutory laws levying taxes. The various taxes liable in Jordan, however, are subject to many rules and regulations that have been coined as being part of the Jordanian constitutional provisions, the core aim behind which is to achieve 'equality' and 'social justice' (Malkawi and Haloush 2008, p. 283). According to article 111 of the Jordanian Constitution, taxes may only be imposed pursuant to law. Thus, the government and any other entities are not entitled to impose, increase, or amend taxes except through legal provisions. The legality principle does not permit exceptions. This means that even for extraordinary cases, such as the imposition of a tax to deal with a public crisis, the legality principle must be respected. If not respected, the imposition of a tax that is not in accordance with the legality principle will be unconstitutional (Malkawi and Haloush 2008). Yet, a good number of taxes and fees are in contradiction with Article 111 of the Constitution. That is, governments act based on their thinking and training and mistakes pile up, which is probably why Jordanians pay 122 types of taxes and fees.[2] Table 1 presents a summary of the central government fiscal operations (2013–2019).

The ITL (2014) stipulates that tax evasion involves 'those who evaded, try to evade, assist or instigate others to evade' (Article 66). This interpretation lacks accuracy as it fails to highlight the difference between tax evasion and tax avoidance. Thus, tax evasion, based on the ITL, could be referred to as tax deliberate actions or attempted actions taken by taxpayers in order to evade or reduce the payment of tax (Malkawi and Haloush 2008). These actions include the filing of the tax declaration based on falsified records or documents and/or endorsing data that are different from what is provided in the records and documents they concealed. Other forms of tax evasion include the filing of the tax declaration based on the non-availability of tax-related records or documents and endorsing data that are different from what is recorded in the records or documents that they concealed; the intentional destruction of tax-related records or documents before the expiration of the records keeping period; falsifying or changing the purchases or sales invoices or any other documents to mislead the tax department into believing that

2 Mansur, Y. (Jan, 2015)"What's with Taxes" Jordan Times.

the profit decreased or that the loss increased; and concealing any taxable activity or part of it.

Yet, to prove tax evasion, the ISTD must verify an act as constituting an evasion or attempted evasion of the tax as being intentional. The ITL has no requirement for proving the amount of tax evasion. Malkawi and Haloush (2008, p. 286) argued that 'the critical issue is whether there was an evasion, not the amount of tax evasion.' Thus, the ITL does not require perpetrators to actually succeed in their attempt to evade the tax. Consequently, the crime of tax evasion requires positive actions.

To sum up, strengthening tax administration will improve efficiency and transparency. Moreover, tangible progress toward more transparency and accountability could create a broader buy-in. The ISTD has already restratified taxpayers into the large taxpayer office, medium taxpayer offices, and small taxpayer offices, which will improve the efficiency of tax collection. The ISTD has also classified taxpayers based on the International Standard Industrial Classification for better segment management and has started to collaborate with the Anti-Money Laundering unit on information sharing. However, adjustment in the last years concentrated on reducing subsidies and affected mostly banks, hotels, telecommunication, rich households, and non-Jordanians. Therefore, there is a necessity for making the adjustment more broad-based to minimize distortions and maintain competitiveness. It reiterated that deep income tax reform will need to play a prominent role in any credible medium-term fiscal consolidation strategy. This could reverse the revenue loss in recent years. Collection efficiency and segment management are benefitting from the reclassification of taxpayers based on size and industry; better information sharing across public agencies; and further improvements of the national registry. Nevertheless, further tax reforms are paramount and should focus on making the tax system more progressive and on removing tax exemptions. To strengthen the enforcement capacity of ISTD, an amendment to the law on the collection of public funds to introduce appropriate penalties on tax evasion is remarkably required. The next section addresses the extent of tax compliance and tax evasion in Jordan.

Tax Compliance and Evasion in Jordan

The precise meaning of tax compliance has been outlined in several ways. For instance, while Andreoni et al. (1998) argued that tax compliance should be defined as taxpayers' willingness to comply with tax laws in order to obtain the economic stability of a country, Song and Yarbrough (1978) argued that tax compliance needs to be considered as taxpayers' ability and willingness to obey tax laws which are usually determined by ethics, legal environment, and other situational elements at a particular time and place. Additionally, Alm (1991) and Jackson and Milliron (1986) described tax compliance as the reporting of all incomes and payment of all taxes by fulfilling the provisions of laws, regulations and court judgments. Yet, for the purpose of this paper, and based on IRS (2013), ATO (2011), Alm (1991) Jackson and Milliron (1986) and Kirchler (2007), tax compliance is defined as taxpayers' willingness to comply with tax laws, declare the correct income, claim the correct deductions and pay all taxes on time.

By contrast, tax non-compliance is referred to as taxpayer's failure to remit an appropriate amount of tax; probably because of the complexity or maybe even contradictions in the tax legislations or tax administration procedures (Jackson and Milliron 1986; Kasipillai and Jabbar 2006). Non-compliance is likewise regarded as being the failure of taxpayers to report correctly the actual income, claim deductions, and remit the actual amounts of taxes payable to the tax authority on time (Kirchler 2007). Yet, certain studies have also segmented income tax non-compliance into intentional and unintentional behavior (Loo 2006; Andreoni et al. 1998; Lewis 1982 and Allingham and Sandmo 1972). The latter of these are, despite the fact that there are additional determinants, often because of calculation errors and insufficient tax knowledge.

Tax evasion and tax avoidance are examples of intentional tax non-compliance activities that have negative effects on tax collections and tax compliance indexes (James and Alley 2004). Tax evasion and tax avoidance involve similar taxpayer behaviors because they are undertaken in order to minimize or to eliminate tax liability. They are factually similar but legally distinct (Prebble and Prebble 2009). Tax evasion is illegal; it consists of the willful violation or circumvention of applicable tax laws in order to minimize tax liability (Black's Law Dictionary 1979). Kay (1980) defined tax evasion as an act concerned with concealing or misrepresenting the nature of a transaction. However, tax avoidance takes place when facts about the transaction are admitted, but they have been arranged or presented in such a way that the resulting tax treatment differs from that intended by the relevant legislation (Kay 1980). James and Alley (2004: 28) argue that while tax evasion is 'the attempt to reduce tax liability by illegal means,' tax avoidance is 'reducing taxation by legal means.' Lewis (1982, p. 123) considered tax avoidance as 'any legal method of reducing one's tax bill' and tax evasion as 'illegal tax dodging.' However, Lewis (1982) asserts that the dividing line between evasion and avoidance still remains unclear. This paper focuses on the illegal aspect of tax compliance, i.e., tax evasion, which is, however, not always considered to reflect actions that are illegal and of criminal standards such as gambling, burglary, robbery, drug dealing, and prostitution (Schneider et al. 2010).

Over the few decades, there has been a gap between the income tax estimated by taxpayers and the income tax actually collected after the adjustments made by the ISTD staff in Jordan. For instance, in the late 1970s and early 1980s, the difference between the estimated income tax and the income tax actually collected stood at 21.2%. In the 1980s and 1990s, the difference was 46% (Kettaneh 1998) and from 2001 to 2005 the difference increased to 69% (ISTD 2012). However, there are fewer cases of tax evasion related to income tax than to the sales tax (Nsour 2014). Sales tax evasion happens almost exclusively through the reduction in the value of the taxable income, or non-submittance of tax returns, while evasion of income tax on individuals and corporations is done through refraining from registering with the tax department, or non-disclosure, or giving false information on the size of economic activities. For instance, tax deductions were around JD[3] 834 million, while tax arrears amounted to around JD 370 million. This puts the size of tax evasion at approximately JD 695 million, of which JD 200 million were an evasion from income tax, while the tax evasion from general sales amounted to around JD 495 million (Nsour 2014).

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

The time-series statistics pinpointed earlier highlight an unambiguous negative picture. The tax gap between declared income tax and adjusted income tax is not only large, but has also increased by more than triple its amount over the past three decades and is continuously growing. According to some estimates, the largest portion of the tax gap is due to the under reporting of revenues and unwarranted deductions (Abu-Nassar and Mubaideen 2000). Large and well-known companies see their tax planning strategies struck down as devious tax evasion and are forced to pay penalties on top of the tax they had hoped to evade. In sum, wherever opportunities to evade taxes are present, many Jordanian taxpayers are eager to take the advantage. The gap between declared and adjusted income tax is a sign of a serious tax compliance problem.

Schneider et al. (2010) estimate the shadow economy as a percent of GDP in 162 countries, including Jordan, over the period 1999–2006. The average size of the shadow economy in Jordan for the period 1999–2006 was 18.5% of the official GDP (see Table 2). It modestly decreased from 19.4% in 1999 to 17.2% in 2006. As for the 162 selected countries, the study shows that the average size of the world shadow economy increased only modestly from 33.7% of official GDP in 1999 to 35.5% of official GDP in 2007. Table 2 presents the size of the shadow economy in Jordan as percentage of GDP compared with other Arab countries.

There are two possible explanations for income tax evasion by Jordanians, namely flaws within the current ITL and factors external to the current law. Frequent changes in income tax law have complicated the tax regime (Abu-Nassar et al. 2003; Malkawi and Haloush 2008). Over the past years, there have been 13 modifications, with neither ITL (2009) nor ITL (2014), made to the income tax law including seven substantive amendments (Abu-Nassar et al. 2003). In addition, there are many other tax regulations, tax schedules, government instructions, and ministerial orders and rulings. Thus, changes in the income tax law and regulations make it difficult for a taxpayer to get tax return exactly right. Taxpayers may not know the law well enough to complete their own tax returns and may not understand all the questions on tax returns. Therefore, lack of knowledge explains why taxpayers employ tax professionals. Tax professionals have greater technical knowledge, can maneuver through complex tax law, and maximize tax refunds. However, tax professionals could face the dilemma of balancing ethical tax behavior and client expectations of tax refunds or even evasion (Becker 1996). Yet, there is no code of ethics for tax professionals in Jordan.

Al-Oran and Al-Khadhoor (2004) concluded that income tax evasion in Jordan is related to several factors. On the top of which is the economic situation. It has been also shown that income tax evasion in Jordan has, generally, followed an increasing rate during most of the studied period, and whenever a new tax is imposed, or an old one is increased, evasion increases significantly. Yet, in order to reduce tax evasion in Jordan, Khasharmeh (2000) suggested that more discount and incentives to taxpayers who provide real estimation of their income shall be granted, in addition to subtract the paid *Zakat*[4] from the tax due. Similarly, Abu-Nassar and Mubaideen (2000) found out

[3] The exchange rate of the Jordanian Dinar has been pegged with the US dollar since 1994 (JD 1 = US $1.4).

[4] *Zakat* is a form of obligatory—compulsory, or, more recently, voluntary—alms-giving and religious tax in Islam. As one of the Five Pillars of Islam, *Zakat* is a religious obligation for all Muslims who meet the necessary criteria of wealth. It is the instrument that allows individuals to render to the community its share in the wealth produced (Murtuza and Ghazanfar 1998).

Table 2 Size of the shadow economy in Jordan and some Arab countries

	1999	2000	2001	2002	2003	2004	2005	2006	2007	Average
Bahrain	18.6	18.4	18.2	18.0	17.8	17.4	17.1	–	–	17.9
Saudi Arabia	18.7	18.4	18.7	19.2	18.3	17.7	17.4	17.4	16.8	18.1
Syria	19.3	19.3	19.2	19.1	19.3	19.1	19.0	18.7	18.5	19.1
Jordan	19.4	19.4	19.2	18.9	18.7	18.3	18.0	17.5	17.2	18.5
Kuwait	20.1	20.1	20.2	20.3	19.3	18.8	18.1	17.9	–	19.4
UAE	26.3	26.4	27.0	27.4	26.3	25.4	24.8	23.5	–	25.9
Yemen	27.7	27.4	27.3	27.2	27.0	27.0	26.6	26.8	26.8	27.1
Algeria	34.2	34.1	33.8	33.3	32.5	31.7	31.1	31.0	31.2	32.5
Lebanon	34.1	34.1	33.7	33.5	33.2	32.4	32.4	32.8	32.0	33.1
Egypt	35.5	35.1	35.2	35.7	35.4	35.0	34.8	34.1	33.1	34.9
Morocco	36.5	36.4	35.7	35.5	35.0	34.2	34.9	33.1	33.1	34.9
Tunisia	38.7	38.4	37.8	37.8	37.4	36.9	36.7	35.9	35.4	37.2

Source: adapted from Schneider et al. (2010, pp. 454–456)

that manipulating revenues and expenditures amounts is the major way of tax evasion. The study has also found that the most important reasons behind tax evasion are the light penalty imposed on tax evaders and the weak ISTD's information system.

Income taxes are generally perceived as unfair and too high. Jordanian taxpayers cannot point to any concrete improvements in their standards of living and thus see no reason to finance the state (the Economist 1998; Solomon 2005). Favors and cronyism penetrate the current Jordanian income tax system, leaving citizens with little motivation to voluntarily comply with such a system (Al-Naimat 2013). Therefore, many Jordanians notice that the more privileged taxpayers openly disregard the law. Several instances of violence against staff of the ISTD have contributed to difficulties with tax collection, and prove that the current tax regime is unmanageable. However, Nsour's (2014) study pointed out four main reasons behind tax evasion: leniency when imposing penalties on tax evaders; inadequacy of official databases and information about the economic activities of wholesale and retail trade sector, manufacturing sector and construction sector, as well as of professionals including doctors, engineers, and lawyers; complexity of the tax system and lack of stability due to frequent amendments made to the tax laws, which make it difficult to understand the legal provisions on tax and adhere to them; inadequate funding for training programs to enhance human resources in tax administration.

Tax evasion is also an acute problem in Jordan because of the diversity of its population which paves the way for monetary misconduct. Many residents in Jordan come from Palestine and Iraq, recently, Libya and Syria. For example, in 2003 onward, Iraqi refugees flooded Jordan. Iraqi refugees can gain permanent residency permits if they make large investments in Jordan. US authorities worry that Jordan has become a money laundering center for ill-gotten Iraqi wealth, potentially to the tune of billions of dollars (Solomon 2005). Moreover, the authorities feel that the direct costs included in the budget are potentially underestimated. They were also concerned that planned future tax increases could be perceived by the population—which was already suffering from lower-quality public services—as having to unduly pay for the Syria crisis. The problem of income tax evasion has become the subject of parliamentary debates and newspaper articles (Al-Rai 2006). In addition to macroeconomic implications, changes in the social landscape have triggered and the provision of public services has suffered. Such circumstances could also worsen the already poor unemployment and poverty situation (IMF 2014). This, however, only made the problem worse and led to a breakdown in the relationship between the public and the ISTD. Therefore, prioritizing public investment toward maximizing its impact on growth and unemployment is critical to make the most of scarce resources. Efforts in improving tax administration would also complement tax policy changes. Moreover, there is a necessity to establish a holistic compliance management framework by identifying and implementing specific compliance improvement programs for the high-risk segments, sectors and issues. Such framework aims to develop a culture of integrity in all of segments of the society, strengthening the rule of law and judiciary independence, and promoting transparency in government policymaking and decision-making.

Several policy courses would also be recommended: toughening penalties for tax evaders and facilitating an accelerated litigation process; building adequate databases for all economically active individuals and entities in the country; enhancing the capacities of workers in the auditing and tax collection; limiting the introduction of amendments to the tax laws; assuring that legal texts are tight enough to reduce tax avoidance, which is considered to be the first step toward tax evasion; legislatively stripping all authorities of the right to intervene in granting tax discounts; reducing the accumulation of tax arrears by facilitating litigation and accelerating settlements; raising awareness among citizens and conviction of the importance of paying taxes on time, and the importance of tax revenues in financing public spending, which will benefit the whole society; establishing the principle of requesting formal bills when making purchases of goods and services; and reviewing tax laws to make sure that the tax burden is well distributed, justice is assured and that taxes contribute to the stimulation of economic activity. The next section addresses tax evasion in Jordan as a cultural problem.

Tax Evasion as a Cultural Problem

> … puzzle of tax compliance can be explained, at least in part, by recognizing the typically neglected role of ethics in individual behavior; that is, individuals do not always behave as the selfish, rational, self-interested individuals portrayed in the standard neoclassical paradigm, but rather are often motivated by many other factors that have as their main foundation some aspects of 'ethics.' We argue that it is not possible to understand fully an individual's compliance decisions without considering in some form these ethical dimensions. Specifically, we argue here that there is much direct and indirect evidence that ethics differ across individuals and that these differences matter in significant ways for their compliance decisions. (Alm and Torgler 2011, p. 635).

There is no doubt that the sociodemographic and socioeconomic backgrounds of individuals affect tax evasion. As should be obvious from what has been argued thus far, tax evasion in Jordan takes place in the context of a tax system that generates mutual doubt between taxpayers and the state; it is perceived to be unfair and is remarkably complicated and forever changeable. The state and the citizen in Jordan have been trapped in a virtuous cycle. That is, when citizens perceive the state as having a predatory functionality, they endeavor to guard their income through tax evasion. Similarly, when the state perceives citizens as potential tax evaders, it attempts to coerce them to pay through enacting increasingly more complex laws which, alas, reinforce the citizens' perceptions about the predatory functionality of the state, and so on.

Oddly, such a virtuous cycle takes place even in a country which prides itself with its patriotic feelings, founded both on a strong sense of national identity (Herzfeld 1989) and on a sense of threatened existence emerging from Jordan's location in an unstable region. Despite the assumption that such circumstances could raise an individual sense of national harmony whereby citizens would financially contribute toward the well-being of their polity; the reality could not be further from this citizen/state relationship. Regardless of the ritualistic references to their national society, modern Jordanians distrust the state to a great extent. Hence, there is an absence of qualms concerning the evasion of their tax payments whenever there is a chance to do so. But, why is this case? How is it possible for a country whose foundational myths have asserted strongly both the classical Jordanian ideals of public duty and obedience to the laws of the democratic police, and the principle 'love thy neighbor,' to contradict itself so blatantly?

In order to conceptualize such a perplexing behavior, it is necessary to stress the mutual distrust between the citizens and the state. The Jordanian state has historically been perceived as an unwelcomed intruder; a body that is unfair toward its citizens, occasionally oppressive and, at times, a mere organ of foreign authorities (Moore 2004; IMF 2014). To clarify such perceptions, one needs to understand that, at its inception, the modern Jordanian state was administered either by foreigners, mostly of American and British origins, or by Jordanians of the diaspora, who aspired to introduce modern administration in a country which was functioning in pre-modern ways (Moore 2004). Yet, economic policies in developing countries often differ sharply from those commonly advocated by economists, generating advice to adopt policies that are more consistent with both the successful practices in richer countries and/or those that appear best to be based on existing economic theories (Gordon and Li 2009). The deviation from conventionally recommended policies is systematic among poorer countries and has existed for many years which makes it hard to dismiss this evidence as being a result of some officials misunderstanding of the implications of the policies that they choose. Gordon and Li (2009, p. 856) explain that in developing economies such policies fall under the general category of 'political economy' problems. That is, these policies are designed to benefit selected groups who have unusual strong political influence within certain countries. In particular, a government can favor these groups by designing the tax system to transfer resources to them, and perhaps by interfering with market allocations so as to alter equilibrium market prices in ways that benefit particular favored industries. Yet, these policies might still impose large costs on the rest of the population, justifying altruistic intervention from outside.

The distrust between the Jordanian state and its citizens is pervasive. A few examples from Jordanian political and economic life will suffice to illustrate the point. Many projects, such as the Rapid Bus Transit,[5] lack planning which results in a lot of money being spent on projects that turn out to be a complete failure, and a large proportion of the public expenditure is being wasted. Moreover, there is hardly a week that goes by without a public scandal. Such scandals might include individuals in public positions being reported in the press; bribery in the civil service, and in the public sector more generally, which is commonly acknowledged to be widespread; clientelistic relations between the state, especially politicians, and citizens that are a defining feature of modern Jordan to the extent that there are hardly any people working for the government who do not owe their jobs to politicians' patronage (Moore 2004; Ronsin 2010). As for the use of personal connections, Ronsin (2010) explains the issue of such connections, also known as 'wasta' in Jordan, as reflecting Middle Eastern cultural dispositions: 'The use of informal channels (mostly based on kinship ties) to obtain any kind of service, such as avoiding a fine, speeding-up an administrative process, getting a job or a better grade at university' (Ronsin 2010, p. 1). Ronsin critiques the great prevalence of wasta and highlights its crippling effect on the economy of the country:

In Middle Eastern countries, the use of wasta is widespread and little is done on the political level to reduce it, even though many observers or actors of the system point out its economic draw-backs at an aggregate level: Wasta has a very negative impact on the general level of competence in the economy. (Ronsin 2010, p. 1).

However, Heidenheimer and Johnston (2011) argued that in the context of pervasive and cumbersome regulations in developing countries, corruption may actually improve efficiency and help growth. That is, 'in the second-best world when there are preexisting policy induced distortions, additional distortions in the form of black-marketing, smuggling, etc., may actually improve welfare even when some resources have to be spent in such activities' (Bardhan 1997, p. 1322). Nonetheless, Sanyal et al. (2000); Acconcia et al. (2003); and Akdede (2006) argued that corrupt tax officials may encourage taxpayers to escape tax payments by paying a bribe. Joulfaian (2009) argues that tax evasion thrives when bribes paid to tax officials are commonplace, and the ability of the tax officials to accept bribes from the taxpayer increases when there is no suitable reward for the tax officials to detect the evasion. Previous studies, which investigated the effect of corrupted tax officials on tax evasion found a positive relationship between the two (Crequeti and Coppier 2009; Escobari 2005; Gupta 2008; Hindriks et al. 1999; Imam and Jacobs 2014; Sanyal 2000). Taxpayers may find it more affordable to pay a bribe for tax officials rather than to pay their taxes. However, Akdede (2006) found that when a bribe is large, taxpayers prefer to pay their taxes voluntarily rather than to evade taxes.

Keeping in mind that the modern Jordanian state has historically been functioning on the principles of nepotism and patronage (Johnson 2012; Ronsin 2010), it is hardly surprising that it is not trusted by its citizens. The state is not perceived as a protector and advancer the public interest, but rather as a sectional interests protector (Johnson 2012). Thus, citizens' behavior is typically egotistic. That is, citizens attempt to gain the favor of the state either for themselves and their families or for their particular sectional groups, and they try to cheat the state in their transactions with it. Torgler (2012), among others, confirmed that the relationship between taxpayers and their governments seems to be crucial in terms of understanding tax compliance. In other words, the level of tax evasion depends on whether taxpayers trust their governments or not, with higher degrees of trust leading to higher level of tax compliance. Those who engage in tax evasion often justify such behavior by suggesting that the government wastes tax revenues and spends unwisely, an argument which might decrease voluntary compliance in the long run (Braithwaite et al. 2010), undermine the legitimacy of the political system and interpersonal trust (Seligson 2002). By contrast, if taxpayers trust their governments, political representatives, and the judicial system, taxpayers would be more willing to comply with their tax obligations (Alm 1999; Alm and Martinez-Vazquez 2007; Alm and Torgler 2011).

The demand side is impacted by the culture's complexity. In complex societies, people are less likely to be aware of the social costs of their misconduct, and the individual's benefit from appropriate behavior is less than the benefit gained by individuals in small social groups. Hull and Bold (1994) argue that religion also has a comparative benefit in creating or motivating social goods in large cultures of middle complexity in which the central government is very poor to enforce property rights. Hull and Bold (1994, p. 449) stressed that 'Heaven rewards desirable behavior and hell increases the expected cost of misbehavior, causing an increase in enforcement effectiveness.' Margolis (1997, p. 247) proposed an answer for why morality and religiosity are linked together. Religiosity comprises the belief about the right behavior. He argues that the right behavior is made up of two components: 'Right behavior in the sense of proper performance or rituals honoring what is sacred in the society and hence serving also to bind the society together; and right behavior in the secular sense of what is fair and just.' However, Jordanians might not consider the

[5] For details, see http://www.jordan-business.net/images/stories/March2012/FEATURE.pdf.

current regime as an Islamic and legitimate state. Thus, there is no absolute duty to pay the state whatever it demands.

Other researchers have supported the duty to pay taxes to the state in the context of Islam. Jalili (2012), for instance, interprets the Muslim literature to support that there is an absolute duty to pay the state whatever it demands, but only in cases where the state is a purely Islamic state. That is, in a purely Islamic state, Muslims believe that the rulers are God's representatives on earth with God's approval, which justifies and stresses the obligation to obey them. Yet, such a state currently does not exist, and even if it does, it is doubtful that the people in charge of running the state would run it honestly, since humans are imperfect. However, improvements in the effectiveness and efficiency of the tax system and the collection process can certainly be fruitful. The Government's legitimacy (including absence of cronyism and corruption), the fairness of the tax system (i.e., in relation to its rates and application), and proper spending of the tax revenues are most fundamental factors contributing to tax evasion behavior. Ultimately, to substantially improve the situation, the public must view the taxing authority as legitimate, the tax system as fair, and governmental spending as useful and efficient.

Jordanian citizens are in a Prisoner's Dilemma, which is certainly the basis of the virtuous cycle explained above (Hargreaves-Heap et al. 1992, p. 244; Kay 1995, pp. 35–38). Citizens can either pay or evade paying their taxes in full. When all can agree to pay their taxes, they are collectively better off since more money will be available in the public purse to be spent on services and infrastructure from which all will benefit. Unless, however, there is some mechanism to enforce the agreement, it is unlikely to hold because it is advantageous for an individual not to pay taxes when others do, since the country as a whole will be better off and the tax evader will have enhanced his/her income. When all individuals realize this, they will all decide to evade paying taxes if they can, which sets off a chain reaction. That is, tax evasion becomes widespread, tax revenues are reduced, the state attempts to limit tax evasion through enacting ever tighter laws which, however, citizens try harder to bypass, and so on. Lewis (1971) states that guilt arises when individuals realize that they have acted irresponsibly and in violation of a rule or social norm they have internalized. That is, since the obligation of paying taxes to the government is an accepted social norm, it makes sense that individuals who choose not to pay all of their taxes may feel guilty. Moreover, Erard and Feinstein (1994) incorporate shame and guilt directly into the taxpayer's utility. They hypothesize that a taxpayer feels guilty when he or she under-reports and escapes detection. Taxpayers also feel ashamed when they under-report and get caught. Therefore, it could be argued that the society in Jordan has an obligation to impose social censorship behaviors through the reinforcement of such social norms as shame and guilt (i.e., social costs) in order for tax evasion to be combated effectively.

The key to escaping from the Prisoner's Dilemma is trust (Casson 1995; Hosmer 1995; Miller and Smith 1993; Feld and Frey 2002). In societies of high trust, moral sanctions are relied upon to reinforce certain types of behavior (Torgler and Schaltegger 2006). High trust encourages spontaneous cooperation and reduces the need for state intervention to check on dishonest behavior, thus reducing monitoring costs. Conversely, low trust undermines spontaneous cooperation and increases the need for state intervention to detect dishonest behavior, thus increasing monitoring costs through the enactment of increasingly more complex rules. The trouble is that although in a low-trust society there is a higher need for state intervention, the state is part of the problem, and this makes it even more difficult to limit tax evasion. For example, Slemrod (1992, p. 7) states that from 'the tax collection standpoint, it is extraordinarily expensive to arrange an enforcement regime so that, from a strict cost-benefit calculus, non-compliance does not appear attractive to many citizens. It follows methods that reinforce and encourage taxpayers' devotion to their responsibilities as citizens play an important role in the tax collection process.' Lewis (1982, p. 165, 177) maintains that 'it could be that tax evasion is the only channel through which taxpayers can express their antipathy … we can be confident in our general prediction that if tax attitudes become worse, tax evasion will increase.' Moreover, Casson (1995) provides a concise explanation for the largely self-defeating nature of state intervention, which is worth quoting here in full:

> 'The problem is that in a low-trust society people not only cannot trust each other, they cannot trust the intervenor either. Indeed, since the intervenor often has more power than anyone else, particularly if he is backed by the coercive power of the state, he is more to be feared than other people. Although there are evils that need correcting, therefore, they cannot be tackled because the solution - namely intervention - is feared more that the problem itself.
>
> Fear of intervention means that trust becomes focused not on people, but on processes instead. Intervention, when it occurs, is governed by rules: discretionary intervention is disliked because it is believed that discretionary powers are easier to abuse. Rules make it easier to detect when the intervenor cheats.' (Casson 1995, p. 197).

Rules, however, not only increase the cost of monitoring for dishonest behavior but also accentuate the distrust that already exists between the taxpayer and the state (Feld and Frey 2002). Hence, the virtuous cycle exists.

The preceding argument is particularly well illustrated by the actions of successive Jordanian governments through the years. Since the distinguishing feature of the Jordanian state is its clientelistic character, Jordanian governments have made it a habit to offer advantageous tax treatment to sections of the population, while at the same time professing to fight tax evasion through constantly as well as unpredictably fiddling with the tax laws and making them more complicated. To appreciate the significance of such behavior, one needs to place it in the context of wider, persistent clientelistic practices according to which, for example, the CEOs of all public sector organizations are political appointees, and many jobs in the public sector are habitually dished out to government supporters (Imam and Jacobs 2014; De Cremer and Tyler 2007).

Against such a background, the behavior of the Jordanian state does not particularly help to enhance its credibility, and therefore, it should be no surprise why, to use Casson's language, the state's practices are feared more than the problem they address. Since the credibility of the Jordanian state has come to mean that the state will do whatever is in its future self-interest to do, rather than its behavior in the future being reliably inferred by its intentions in the present, it is hardly surprising that the incentives for cooperative behavior are adversely affected. For, as Elster (1989, p. 273) argues, 'the ability to make credible promises enables people to cooperate more than they would otherwise have done.' When such ability is diminished, cooperation is undermined and distrust spreads.

Another argument can be made which is that there is nothing unethical about not paying taxes, particularly when the money collected is spent on unethical projects (Alasfour et al. 2016). Yet, 'each individual has a different set of ethical values' (Kohlberg 1976). This means that what might be ethical for someone could not be just as ethical for others (Cummings et al. 2009; Alm and Torgler 2011). The law and economics literature applies utilitarian ethical principles to arrive at the conclusion that what is efficient is ethical. Yet, there are some practices that might be commonly considered as unethical in certain cultures, like gambling for instance. While gambling is ethically and legally accepted in many countries (the UK and the USA as examples); it is unethical and illegal in others such as Jordan. In this context, Aljazeera (2014) reported that gambling would 'hardly be the only "un-Islamic" activity allowed in Jordan, a country whose bars and nightclubs make it a magnet for tourists from the Gulf. However, Aljazeera (2014) reported that the 'casino issue' was not considered entirely problematic on the national level. But the way in which the deal was negotiated (i.e., when signing the governmental approval to build the casino, behind closed doors, with no public input), sparked almost universal anger' (Aljazeera 2014: n.p.).

In September 2007, the Government of Jordan (GOJ) was engaged in a Casino Licensing Agreement with Oasis Holdings executive Michel Hebert that grants Oasis Holdings a casino license for an initial term of 50 years. The government tried to settle the 'breach' dispute in 2008, when it offered Oasis an extra 50 dunams[6] of land along the Dead Sea which it could use to develop a boutique hotel. The company signed the deal, but is still pursuing monetary damages from the government (Aljazeera 2014).

Is there a way out of the virtuous cycle described above? There is, provided that one realizes that tax evasion is not seen in moralistic terms, but placed in its particular context or, in Wittgenstein's (1958) terms, in the particular 'form of life' within which it is embedded (Wittgenstein 2010). In other words, there is little point in merely condemning tax evasion as being unethical; there is a need to see tax evasion in its historically shaped context and try to understand the social norms underlying it (Hargreaves-Heap and Varoufakis 2004; Elster 1989).

Thus, in the Jordanian case, tax evaders are not so much immoral as ordinary people: They do what nearly everybody else does. In a country in which evading paying your taxes is taken so much for granted as to go unnoticed and in a country riddled with bribery, rumors for scandals, and favoritism, tax evasion looks like, if not a rational, at least a perfectly intelligible response. Moreover, contrary to what Jordanian governments have always assumed, tax evasion is not a merely tax system problem: changing yet again, and even simplifying the tax system will not resolve the problem, for tax evasion is more than anything else a cultural problem, and as such it should be approached (Maruyama 1996).

If historically formed distrust between the citizens and the state is at the root of tax evasion in Jordan, the remedy should naturally be sought in the direction of establishing trust between the two parties. Trust, however, is an elusive concept. How is it to be established and maintained? Casson (1995, pp. 198–205) has a few useful suggestions on this point. The most precious asset of a reform-minded government is what Bourdieu (1992) in another context calls 'symbolic capital,' namely the legitimacy of a government's policies is afforded by the population. Legitimacy depends on a government's ability to meet its own performance norms, which are, in turn, shaped by the

[6] A dunam was a unit of land area used in the Ottoman Empire and representing the amount of land that can be plowed in a day. The unit is still in use in many areas previously under Ottoman influence. It is now defined as exactly one decare (1000 m^2).

country's culture (Casson 1995). A key component of that culture is trust. A government helps set the culture and so establish trust in two ways. First, through the values a government is committed to, which are manifested both in its discourse and in its practice (Tsoukas and Papoulias 1996). And secondly, via the state institutions through which individual incentives are to some extent mediated. A government's meeting its own performance norms as they have been set by the particular culture a government is committed to will very probably set in motion a virtuous cycle: a high-trust culture will influence citizens' conduct, which will shape economic performance which, in turn, will reinforce the culture, and so on.

Casson's reasoning applied to the Jordanian case would entail that the first task for a government that is serious in tackling tax evasion ought to be the establishment of its credibility so that it can be trusted by the population (Dixit and Nalebuff 1991; Elster 1989). Credibility is enhanced by, among other things, the government's eschewing clientelistic and particularistic practices; adhering to the values of meritocracy and professionalism in the public sector; applying indiscriminately the laws, especially punishing the cheaters; and, in general, and by behaving as a responsible corporate citizen, being able to forego immediate self-interest for the sake of the long-term interest of the country. It is a simple principle which, sadly, no Jordanian government has hitherto consistently followed: do to others as you want to be done by. The move towards a high-trust culture, which is the key to successfully fighting tax evasion, requires that the government manifests in its behavior the virtues it preaches for others to follow (Hargreaves-Heap et al. 1992; Kay 1995).

To sum up, improvements in effectiveness and efficiency of tax system and the collection process can certainly be fruitful. Nonetheless, it can accomplish only so much. Government's legitimacy (including absence of cronyism and corruption), fairness of the tax system (rates and application), and proper spending of the tax revenues are most fundamental factors contributing to tax evasion behavior. Ultimately, to substantially improve the situation, the public must view the taxing authority as legitimate, view the tax system as fair, and government spending as useful and efficient. Yet, there is necessity of maintaining reliance on indirect taxes or general sales/consumption taxes in the short and medium term until structural changes take roots and mutual trust is established. Moreover, since the game between the Jordanian citizens and the Jordanian tax authorities is a repeated game, a tit-for-tat strategy initiated by the Jordanian government can help foster a culture of mutual trust and breaking free from the Prisoner's Dilemma.

Summary and Conclusions

Tax evasion is widespread in Jordan. For every dinar, the state collects in the form of income tax; there is more than one dinar that is not collected due to tax evasion. For every three dinars collected in the form of the VAT tax, there is at least one that is lost. At the moment this paper was being written, Nsour (2014) concluded that tax evasion is approximately JD 695 million, of which JD200 million were an evasion from the income tax, while the tax evasion from general sales amounted to around JD 495 million.

Poor public finance is not an evanescent problem which one might hope that it would go away in due time, or that it might be overcome when the economy starts growing faster. What is really worth being worried about is that tax evasion is a chronic problem in Jordan, which has taken the form of a virtuous cycle: the citizens try to evade taxes in any way they can, thus forcing the state to enact ever more complicated legislation to limit tax evasion which, however, reinforces citizens' conviction about the predatory nature of the state's behavior, to which citizens respond by trying harder to tax evade, and so on. Thus conceived, tax evasion in Jordan is a 'deviation-amplifying problem,' (Senge 1997) a game with no end.

This virtuous cycle has largely sociocultural origins. The political processes, the historical context, and the cultural matrix within which the state in modern Jordan has been created, developed, and administered have created a deep distrust between the citizens and the state. The symptoms of this distrust are both the significant extent of tax evasion on the one hand, and the extremely complicated, volatile, and quite often unfair character of the Jordanian tax system on the other.

In a country where tax evasion is so widespread, the act of tax evasion tends to lose its unethical connotations. Indeed, it is very common in modern Jordan for one to hear conversations between ordinary people in which tax evasion is freely admitted and, not unusually, to be proclaimed in public with pride. Tax evasion seen in the wider context of (a) historically developed clientelistic relations between the state and its citizens, and (b) systematically incompetent, politically motivated, and/or corrupt behavior of several state functionaries, becomes yet another pathological behavior in an already deeply ailing political body. As a Jordanian taxi driver told the author, 'If everybody violates the law, why should I be the silly one to obey it?' Just like certain practices in the Anglo-Saxon countries, such as single motherhood, which once were considered ethically dubious, but have since ceased to be considered so, after they have spread widely, so seem to be the attitudes of the majority of the Jordanian population to the question of tax evasion. Since it is practiced widely, it is no longer considered unethical.

Yet, it is unethical to the extent that both the constitutional requirements of a democratic polity and the fundamental principles underlying the functioning of a modern legal state are violated. The important question, however, is not whether tax evasion is or is not ethical. The real issue, as psychotherapists all too well know (Watzlawick et al. 2011), is *how* to escape from the virtuous cycle into which both the state and its citizens have become embroiled. The circle is indeed vicious not only because, as time goes on, it gets from bad to worse (i.e., the problem is amplified), but also because it is (a) financially unsustainable since the state sees its revenues diminishing, (b) socially unfair since those who pay their taxes are those who cannot evade them, and, (c) above all, ethically destabilizing since it encourages cheating, opportunism, and the dishonoring of contracts—behaviors which spill over to the rest of socioeconomic activities.

We have suggested in this paper that the way out of this virtuous cycle is for trust to be created between the citizens and the state. Naturally, the necessary moves toward the establishment of trust ought to be undertaken by the state, since it is the largest and most powerful collective citizen. A state which will exemplify in its discourse and, mainly, in its behavior, the principles of credibility, fiscal responsibility, professionalism, meritocracy, and efficiency and will make its own behavior consistently bounded by the rule of law, will have higher chances of creating a high-trust culture than otherwise. Efforts to fight tax evasion through enacting even more complicated as well as severe legislation simply help perpetuate the virtuous cycle; they are 'first-order solutions.'(Watzlawick et al. 2011). By contrast, a 'second-order solution' would require that the problem be defined in a radically different manner: not so much as a tax system problem but as a cultural problem. If this is accepted, then the onus is, primarily, on the government rather than the citizen to prove that it deserves to be trusted.

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