EasyChair Preprint

№ 8392

# The Role of Tax Policy in Stimulating and Encouraging Investment in Jordan

Hussam Al-Din Daoud and Yaser Arabyat

EasyChair preprints are intended for rapid dissemination of research results and are integrated with the rest of EasyChair.

July 5, 2022

# The role of tax policy in stimulating and encouraging investment in Jordan

Dr. Hussam Al-Din Daoud

Dr. Yaser Arabyat

The study aimed to identify the role of tax policy and its impact on investment in Jordan, where the study adopted the method of descriptive research and analytical field, the survey was conducted for all members of the sample community, where the study community is Jordanian and non-Jordanian investors benefiting from the Investment Promotion Act of the Investment Promotion Corporation, and a random sample of the study community was selected in size (109) participants.

The results of the study showed that despite the positive impact of the three sectors, financial incentives in the three sectors were not efficient because the relative importance of those incentives was given to the tourism, transport and telecommunications sectors, with the relative importance of incentives in other sectors, including the industrial sector, and the results showed that the investor was satisfied with financial incentives, tax exemptions, attrition rates and investment taxes, but was not satisfied with the ease of practical application of tax laws as well as his dissatisfaction with the continuing amendments to the Tax laws.

The study found a set of recommendations, the most important of which is to work on an ongoing review of the regulations and legislation governing the investment process in Jordan, and work to standardize and simplify investment procedures and conduct further studies similar to the subject of the current study to include other environments and communities. The study recommends examining what shortcomings have affected the attraction of investments in some sectors, particularly the industrial sector, according to which the study recommends the development of a comprehensive new tax law for this sector.

## Abstract

## The Role of Taxation Policy in Stimulating Investment

The study, which depends on descriptive research approach and analytical fieldwork, aims to know about the role of tax policy and its effects on investment in Jordan. A comprehensive questionnaire survey was carried out for all members of sample community, which consists of foreign and domestic investors who benefit from the investment promotion law of Jordan investment commission.

A random sample was chosen from among (109) participants in the sample community. The results of the study showed that, despite the positive impacts on the following sectors (tourism, transport and communication), it was found that the tax incentives of these three sectors are not efficient. This is because the relative importance of incentives that are given to these sectors whereas they are lack in other sectors including the industrial sector. The study also appeared that the investor is satisfied with tax incentives, tax exemptions and its decreasing rate, but the investor is not satisfied with the ease of practical enforcement and the continuous modification of tax laws.

The study reached to many recommendations such as making regularly review of the regulations and legislation that organize the investment process in Jordan, working to simplify and standardize the investment procedures and doing other similar studies to include other environments and societies. In addition, it recommends searching and studying the reasons that effected the investment in some sectors especially industrial sector. Accordingly, the researcher recommends creating new comprehensive tax law of this sector.

**Study problem**

With the declining role of grants and foreign assistance and the accompanying economic, social and political consequences, it has affected the Jordanian economy, creating the challenge of adopting the necessary policies to create an appropriate environment for investment, by activating the role of tax policy, as one of the most important instruments of the state's fiscal policy under the policy of incentives, tax exemptions and their rates of decline, which have become factors influencing the attraction and stimulation of national and foreign investments in order to stimulate economic growth and development. It was therefore necessary to demonstrate the role that tax policy had played with its benefits, incentives and tax exemptions in attracting and encouraging national and foreign investment through Jordan's investment promotion laws as well as amendments to those laws. The problem of the study can therefore be summed up by the following question:

Has Jordan's tax policy played its role in attracting and encouraging national and foreign investment?

**The importance of study**

Taxes affect the ability and readiness of different individuals and entities to form savings; thus investing in various and different areas, this capacity depends on the tax policy, types and rates of taxes, the nature of the sectors on which different taxes are levied alone, as well as the nature of the State economy, the types of investment activities in circulation, the progress or backwardness of this economy, and many of the basic determinants with which tax policy deals, which impose themselves on the relationship between this system and domestic investment.

The Jordanian economy has witnessed a series of different economic phenomena accumulated from economic stagnation and decline in investment, Jordan, like other developing countries, is working in a race to

stimulate national investment and attract foreign investors by providing many advantages and providing the investment climate with its legal, political, social and economic elements, so this study seeks to highlight the role of tax policy and its impact on domestic and foreign investment, and the effectiveness of tax reforms in Jordan in stimulating and localizing national and foreign companies. In addition, this topic was chosen because of the importance of the role that tax policy can play as an encouraging tool for national and foreign investments in line with Jordan's economic development plans, which have become a tool for providing incentives and benefits that stimulate investment.

**Study objectives**

The study aims to identify the tax policy adopted by Jordanian governments in investment laws to further increase economic growth and attract investment in various economic fields and activities. The objectives of the study can therefore be summarized by the following points:

1. To see how tax policy variables affect investment performance in Jordan at the macro and sectoral level from the investor point of view.
2. Clarify the variables resulting from the change in tax policy laws used to stimulate investment.
3. Identify the appropriateness of the tax policies applied to economic conditions and identify the problems they face in terms of planning and implementation.

## 2. Tax policy and its impact on investment decision

The concept of tax policy has been associated with the development of societies and the complexity of their economic, social and political construction, so taxation has become one of the most important

instruments of fiscal policy adopted by states to fill the gap of local resources and the needs of citizens, and an indicator in the expression of economic transformations and their political and social effects on the state and society, so taxes occupied a distinct position in financial studies, as the tax and Investment and its decisions have become important topics in the priorities of economic, financial, banking and administrative studies that are concerned with structural developments in developed societies, accompanied by a similar development in the field of investment study beside it in kind and financial, and after the sources of investment financing became not limited to local, global and traditional sources of investment finance. It has evolved and developed tools, mechanisms and an information and communication network in global markets that have provided investment opportunities and benefits that were not previously available (Momani, 2002).

First: The impact of tax policy on investment decision (Al-Hanawi, 2003):

The foundation's decision to invest and choose between investment projects depends on several criteria, the most commonly used of which are: the current net value standard, the duration of the recovery of invested capital, and the internal rate of return criterion. Tax policy directly affects these standards as follows:

1. The impact of tax policy on net present value: net present value is the difference between the current value of cash flows and the amount of initial investment. The current net value method is one of the most important methods used to choose between investment projects, and according to this criterion it is acceptable only if the net present value is positive, and the net present value is affected by the corporate profit tax rate;

2. The impact of the tax policy on the duration of the recovery of invested capital (recovery period): The duration of the recovery of invested capital is

defined as the period of time required to recover the initial cost of investment from the net cash flow generated by it, and the investment project acquires greater importance and lower risk whenever this period is short, which is what the tax policy seeks to reach by reducing tax rates, granting exemptions that would raise the value of cash flows for investment, thereby recovering the initial investment cost in As little as possible, this encourages investment.

3. The impact of tax policy on the internal rate of profits: The internal rate of profit criterion is one of the most important criteria used in investment decision-making, defined as "the rate at which total cash flows enter equal to total cash flows out of domestic values".

Corporate profits taxes reduce the value of current cash flows, which makes the internal rate of profits decline, thereby negatively affecting investment, and in order to raise the value of the internal rate of investment, reductions and tax exemptions are granted in relation to corporate profits tax within the state's expectations to invest in an activity, thereby increasing current cash flows and encouraging desirable investment.

4. The role of financial incentives in capital-exporting countries to invest in developing countries: Capital-exporting countries may contribute to encouraging their citizens to invest their money in developing countries for what they see as their interest, so capital-exporting countries may give their citizens who invest their money in developing countries tax incentives and benefits, such as being completely or partially tax-free from profits to their country, or taking into account in one way or another somehow They paid him taxes abroad in order to avoid double taxation, and there is no doubt that when deciding to invest outside the borders of his country, the investor takes into account the tax burden that he will bear in his country compared to the tax benefits he can enjoy in the host country for his investment, he

may prefer not to enjoy these tax benefits if the cost of investing without them is lower than his cost if he is exempted from the taxes of the host state, and the investor even if he sees that his profits Abroad will be taxed in his country, which may lead him to refrain from investing abroad, so the financial incentives established in capital–exporting countries to invest in developing countries are factors influencing the investment decision (Mabrouk, 2007).

Second: The impact of financial incentives on encouraging investment decision

The polarized state of investment in general aims to provide tax incentives and benefits to achieve goals of multiple dimensions, perhaps the most important of which is (Mabrouk, 2007):

Encouraging investors to set up investment projects of economic feasibility in a country, or to continue and expand the list.

Urge foreign investors to reinvest returns (profits) in the State rather than offshore them.

3- Encouraging foreign businesses to operate in accordance with the requirements of the National Economic Development Plan, whether by directing them to certain sectors of the national economy, or to specific areas of the State territory as required by the Economic Development Plan.

Financial incentives may be aimed at encouraging investment projects capable of absorbing a large amount of national employment, resulting in increased technical skills for such employment, the revitalization of domestic markets and the reduction of unemployment.

In order for tax incentives and benefits to have implications for encouraging investment, the legal regulation that determines such incentives and benefits should take into account the following:

1. Prior to determining tax incentives and benefits, the polarized State must conduct multiple studies to demonstrate the relationship between the cost and benefit of such incentives on the one hand, and the stages and requirements of economic development on the other, because the introduction of random tax credits without prior consideration has a bad

impact on the State in its quest to attract foreign capital, as it creates a sense of un-seriousness in the investor.

2. The State can use financial incentives as a tool to channel foreign investment to important priority economic sectors in the national development plan, generally by granting greater financial exemptions and incentives to investment projects that go to those economic sectors, and preferential tax treatment can play an influential role in promoting export industries by providing distinctive facilities for their inputs and outputs.

In the light of the above, it is clear that tax policy is very important in the investment process, as investment is the vital and effective element of achieving the process of economic and social development, and if we take into account that any initial increase in investment will lead to increases in income through the investment multiplier, any increase in income must go partly to increase investment through the so-called accelerator.

It should be noted that tax is not only one of the main sources of funding, but also an effective strategic means that enables the State to intervene positively in economic, social and political life, where tax-derived funds contribute to the financing of state expenditures for all sectors such as health, education and other services, upgrading and strengthening infrastructure, stimulating economic policies such as support for certain economic goods, sectors or activities, or improving individual income, social welfare programs, social security and insurance, and providing employment opportunities, which Will lead to increased investments in the country (Oluwole, 2001).

To achieve these data and reach the strategic objectives desired in stimulating investment, the state needs an efficient and professional tax system with sound and transparent systems and procedures, accuracy in the data adopted during tax collection to see the results, and assess the success or failure of tax policy, or its compatibility with the needs of development plans and the ability of taxpayers to deal with the vocabulary of tax laws and adapt their institutions and projects to the benefit of society,

hence the direct relationship between tax policy and investment. (Hohotos, 2001)

**State economic objectives in light of tax exemptions**

1. Achieving economic growth: The rate of economic growth depends on the amount of investments and their distribution among the different branches of economic activity. The tax affects the tendency to invest, when a low rate is taxed on an economic sector, or the exemption is wide, financiers direct their investments towards the sector because it is more profitable (Ezzedine, 2010).
2. Using tax policy to encourage certain productive activities: Each country in the world seeks to achieve different economic objectives using taxes, depending on its geographical location. There are countries specific to a particular sector such as industrial, agricultural and tourism countries, where they exempt the privileged sector from any tax either in full or in part, and the State, through tax policy, encourages investment in these productive activities, and the State may seek to attract foreign capital for investment through incentives and exemptions. Tax that encourages investment (Shamia, 1997).
3. The use of tax policy to prevent the concentration of economic projects: the phenomenon of concentration is a feature of the current era, and this phenomenon is addressed using tax policy by increasing the tax rate in the stages of production of the commodity for the company heading towards concentration, which increases its expenditures, and therefore the lack of direction towards concentration (Khatib, 1997).
4. Incentives and their impact on savings and investment: this is done through investment-encouraging tax exemptions and no tax on development bonds issued by the State or joint stock companies (Al Mawla).
5. Using tax policy to finance development processes: Tax policy is an important tool to serve development purposes, where tax is an important

item of public revenue in the state budget, which allocates its proceeds to spending on development purposes, and tax policy is an important way to help stimulate the company's ability to increase output and investment and leads to increased employment opportunities (report, 2013).

6. Use of tax policy as a tool to address economic underdevelopment: this is done through the development of a comprehensive economic plan using economic policy instruments to address this phenomenon, and one of the tools used by the State is tax policy, which is an important part of fiscal policy, since it is known that the tax structure is influenced by the economic structure of the State, especially in the manner of development, but the tax can also affect the economic structure by using a successful tax policy and cooperating with all tools for development. Economic, and push forward economic growth (Hamdallah, 2005).

Encouraging investment is a major goal, and one of the priorities of the economic work of all successive Jordanian governments without exception in order to increase the pace of economic growth, many legislation and laws regulating the FDI process have been enacted in proportion to their objectives to support the national economy, provide it with foreign currency, create jobs and achieve comprehensive economic development. Jordan has carried out numerous economic, administrative and legislative reforms to remove restrictions on the movement of its foreign trade, the movement of capital and investment, and to enter global markets, and has succeeded in achieving good growth rates as a result of these reforms, recognizing the importance of investments as a key tool for correction and economic openness, and in order to achieve the desired objectives of these investments, the Jordanian Government has taken many corrective measures, enacting laws and legislation with the aim of providing the right

investment climate to attract investment in the context of competition. Severe by neighboring countries (Al-Maliki, 2001).

There are many previous studies that have talked about the subject of tax policy and its impact on investment, including the Hanish study (1992), which studied and analyzed the role of tax in promoting private national sector investments in Algeria, and the study found that social development is linked to economic development, which is linked to investments and the development and tax it achieves for the State, and considers that the tax has two effects: a positive impact for the institution and a negative impact on states, the institution can benefit from these funds payable, on the other hand he believes that the tax has two effects: a positive impact on the institution and a negative impact on states. The State has lost amounts of money that should have been seized as a result of tax evasion, the State's tax intervention takes many forms, including reduction, increase or exemption, flexibility in treatment is intended to encourage or limit certain economic activities and the tax-investment relationship is an old complementary one.

The Hijazin study (1996) aimed to identify Jordanian IPAs and their role in attracting foreign direct investment, and the study emphasized the existence of security and political stability in Jordan and that Jordanian society welcomes direct investments, and stressed that the Jordanian economic environment needs great efforts to raise its level in accordance with the needs of the investor. This may have prompted Momani (2002) to study the role of incentives and tax measures in encouraging investment, where the researcher presented taxes and investment incentives addressing investment promotion institutions and administrative procedures in investment, and concluded that the Jordanian government is improving the working environment in order to encourage investment at the local and security levels, addressing the government's great efforts to create a suitable and competitive investment climate at the regional level by

introducing new investment policies with many advantages and competing with international standards, satisfied some of the hypotheses Which serves his study explaining the impact of income tax on increasing private investment and GDP, which has not been fully demonstrated.

The Mesimi study (2006) aimed to identify the tax policy in Palestine and its role in the development of the Palestinian economy, finding that tax exemptions play an important role in achieving economic objectives, and that they increase per capita income and thus increase the ability to save and increase what is allocated to consumption, and indicated that the privileges granted in the Investment Promotion Act encouraged enterprises coming from abroad while internal projects did not benefit from these privileges, which in turn will affect the Palestinian economy. In the event of the exit of projects coming from abroad and their withdrawal from the markets, especially under the current economic conditions, the study also concluded that investment incentives, if exploited, would support the national economy, and that indirect taxes in the financing of public revenues contribute to GDP and national income by a greater proportion of direct taxes.

The (Voget, 2010) study also examined the impact of taxes on FDI, finding that tax cuts are an option to attract more investment by multinational companies, so in order to increase foreign investment, taxes, particularly corporate taxes, must be reduced.

This may be why it is believed that a country's economic development and tax level affect the level of investments, particularly foreign direct investment, and that there is a strong link between corporate income tax revenues and FDI, as well as other factors such as the market, production prices, labour prices and transport prices affecting FDI (2013, Nistor and Pzun).

In the same vein, Rahal (2011) analyzed the impact of the Temporary Income Tax Act (28) of 2009 in encouraging investment in

Jordan, finding that there was no effect of the Temporary Income Tax Act on increased investment in Jordan, and found that there was no effect of the Temporary Income Tax Act in terms of incentives in the Investment Promotion Act in Jordan, and recommended that tax procedures be simplified and as far from complications as possible to contribute to encouraging investment In Jordan.

The Habib Study (2012) also analyzed tax policy and its impact on Algeria's economy, and found that taxes in Algeria were an essential means for the Government to encourage and sustain investment, especially in recessions and economic crises, as there could be no economic reform and investment without a modern tax system and in keeping with global economic development, The study also emphasized that the tax is a stable and effective source of government revenue to reduce reliance on oil resources and fluctuations in the oil market, and that the tax system is an effective means for the State.

One study that emphasized the impact of taxes on investment was a study (2013, Jacob et al), which analyzed the effects of consumer taxes on corporate investment, finding that investment companies respond to changes in consumption taxes, which is economically important and stronger for companies with less flexible supply, more flexible demand and less uncertainty, as increased consumption taxes lead to lower investments by companies with less flexible supply and more flexible demand.

The Mahlawi Study (2015) aimed to demonstrate the role of tax policy in stimulating investment, and it became clear that there was a positive impact of the Tax Act (8) of 1997 for the total investments made on GDP for all sectors, it was found in the multiple linear equation that there was a positive impact on tax incentives on both the industrial and tourism sectors, while there was a negative impact on the agriculture, construction, construction and communications sectors.

Suleiman's study (2016) analyzed the impact of indirect tax exemptions on investment in Sudan, where the study found a correlation between the size of tax exemptions and the size of investment, and that tax exemptions are used as a tool to direct investments towards a particular sector, projects or geographical areas, and the study emphasized that double taxation leads to flight of domestic and foreign capital.

1. The tax system and its impact on encouraging investment in Jordan

Jordan's tax policy is a plan to achieve objectives that represent the state's policy, and therefore the conduct of the State in accordance with a plan it sets out to pursue in its tax affairs in order to achieve its objectives.

The most important investment incentive tax exemptions derived from Jordan's investment promotion laws:

Jordan's main tax law is income tax law No. 57 of 1985, and many amendments have been made to the law since it came into force. According to the law, income generated or considered to be originating in Jordan (Jordan's source of income) is taxable, and in order to determine the taxable income of the taxpayer, all expenses are deducted entirely and exclusively or incurred in income production during the year. The company's expenses for training, marketing, research and development are tax-free (Momani, 2002).

Jordan has recognized the need for encouraging business frameworks with strong incentives for entrepreneurial initiatives, and His Majesty King Abdullah II has identified increased investment as a national goal as FDI, together with domestic investment, is the surest engine for sustainable development.

Through the establishment of the Investment Promotion Corporation in 1995 and other practical steps followed by aimed at strengthening the investment environment and opening up Jordan's economy, it liberalized trade and foreign exchange, and implemented ambitious privatization programs as part of its quest to integrate into the global economy.

The IPA offers attractive and generous incentives to Jordanian and non-Jordanian investors alike, namely duty-free exemptions, income and social services exemptions, and unrestricted transfer of capital and profits.

Accordingly, a series of laws and legislation have been passed in Jordan to encourage investment since the early fifties, which have been keeping pace with the economic and social development of the country, including these laws and legislation (Al Rahhal, 2011).

1- Investment Promotion and Industry Guidance Act No. (27) of 1955.
2- Foreign Capital Promotion and Employment Act No. (28) of 1958.
3- Investment Promotion Act No. (1) of 1967.
4- Temporary Investment Promotion Act No. (53) of 1973.
5- Laws amended by Law No. (53) of 1995.
6- Investment Promotion Act No. (11) of 1987.
7- Investment Promotion Act No. (16) of 1995.
8- Arab and Foreign Investment Promotion Act No. (27) of 1995.
9- Investment Promotion Act No. (68) of 2003.
10- Investment Promotion Act No. 30 of 2014.

The above-mentioned laws included a large number of facilities for investors to work to provide the right investment climate unhindered. These include tax and customs exemptions, tax exemptions that also concern income, profits, social service taxes, buildings and land, incentives for the transfer of capital, salaries, and wages for foreign workers and capital returns. However, these laws met the needs of investors only limitedly, and foreign investment was not at the safe level. A new law had to meet the needs of investors more, and have a significant impact on encouraging foreign investment, and accordingly the Investment Promotion Act No. 16 (1995) and the Arab and Foreign Investment Promotion Act No. 27 (1995) were enacted as an attempt to fill and cover the weaknesses of previous laws, as the new law granted larger customs and tax exemptions for longer

periods of time, and gave the investor the right to own the project and manage it as it wanted without restriction or a condition.

### 3.3 Benefits and incentives provided by Jordanian investment laws: 1995, 2003, 2014

Interest in taxes and their role in economic, social and political life began to increase their impact on the process of economic growth, and the importance of taxation as an encouraging tool for the growth of the private industrial sector and the revitalization of the national economy as a whole by rationalizing tax exemptions and encouraging investment through its financial incentives (Qasim, 2003). These financial incentives are exemptions and facilities granted in accordance with the provisions of the law in order to stimulate, encourage investments, attract, employ and direct capital in various sectors of the national economy, in order to meet the requirements of the construction plans in those countries to reach their economic objectives, so that tax policy becomes a financial economic means of implementing a country's policy aimed at encouraging productive activity (Yadk, 2006).

Jordan Investment Promotion Act No. (16) and its amendments for the year (2003) are an appropriate legislative framework for attracting foreign investment and stimulating domestic investment, as it is competitive with the advantages, incentives and guarantees of investment laws at the regional level, including those benefits and incentives related to:

1. **Customs Exemptions**

- Fixed assets (machinery, equipment, machinery, machinery and the number allocated for use exclusively in the project, furniture, furniture and supplies for hotels and hospitals) are exempt from customs duties and taxes.
- Spare parts are exempt from customs duties but not exceed (15%) of the value of the fixed assets required by these parts.

- The project's fixed assets are exempt from customs duties and taxes for the purposes of expansion, modernization or renewal if this leads to an increase of at least (25%) of the project's production capacity.
- Hotel and hospital projects grant additional fee and tax exemptions for purchases of furniture, furnishings and supplies for modernization and renovation purposes at least every seven years.
- The increase in the value of fixed assets imported for the project account is exempt from duties and taxes if the increase resulting from the high prices of those assets in the country of origin, the high freight rate or a change in the transfer price.

2. Tax facilities

- Income tax is met from taxable income for companies operating within the mining industry, hotels, hospitals, transportation and construction contracting at 15%, 35% for companies within the banking and financial sectors, and (25%) for other companies, and income tax for agricultural projects (zero).
- The Kingdom has been divided into three development zones (A, B, C) according to the degree of economic development so that investment projects within the sectors stipulated in the Investment Promotion Act in any of these areas enjoy exemptions from income and social services taxes in their ratios described below for 10 years from the start-up date of service projects, or the actual production of industrial projects as described in table 3.

**Table No. 3**

Development zones and exemptions from income and social services taxes

| Category | Area | Reduction time | Reduction rate |
|---|---|---|---|
| A | The following brigades (Northern Valleys, Deir Alla, Southern Shona, Southern Valleys, Ruweished, Northern Badia, North West Badia, Giza, with the exception of the borders of the Municipality of Giza Al-Jadida, which is revered except for the borders of the Municipality of Al-Muqar), include Aqaba governorate except for the Aqaba special economic zone, and the District of Azraq. | 20 years | 100% |
| B | Includes provinces (Maan, Tafila, Karak, Ajloun). | 20 years | 80% |
| C | The provinces include (Jerash, Mafraq, and Irbid except for the borders of the greater Irbid municipality). | 20 years | 60% |
| D | The provinces (the capital except municipality of Amman, Zarqa, with the exception of the borders of Zarqa municipality, Madaba, Balqa) include the borders of the municipality of Al-Rsaifeh. | 20 years | 40% |

The period of exemptions shall be based on the committee's decision (10 years) starting from the date of commencement of service projects, or from the date of commencement of production for industrial projects. The Commission grants additional exemption if the project has been expanded, developed or modernized and has increased its production capacity. The

additional exemption period for one year for each increase in production capacity is at least 25% and for a maximum of four years.

1. Investment guarantees

- The Non-Jordanian Investment Promotion Act treats a Jordanian investor, granting him the right to invest in the Kingdom by owning, participating or contributing to any economic project in accordance with the ratios specified in the Non-Jordanian Investment Regulation System No. (54) of 2000 and to have the freedom to fully own projects within the industry, information technology, agriculture, hotels, hospitals, shipping and railways, amusement and tourist cities, conference and exhibition centres, and services for the extraction, transportation and distribution of water, gas and derivatives. Oil pipelines, as well as many other economic sectors.
- The minimum non-Jordanian investment in any project (50,000) is 50,000 dinars, excluding investment in public joint stock companies.
- The investor has the right to take out the foreign capital he has entered into the Kingdom to invest in it and the proceeds or profits he has earned from his investment, and the proceeds of liquidating his investment or selling his project, stake or shares.
- For technical and administrative workers in any project to transfer their salaries and compensation out of the Kingdom.
- No project may be expropriated or subject to any procedures leading to this except by acquiring the requirements of the public interest provided that the investor is paid fair compensation so that compensation is paid in convertible currency.
- Investment disputes between investors and Jordanian government institutions are settled amicably, and if the dispute is not resolved within a period of not more than six months, either party may resort to justice or refer the dispute to the International Center for Settlement of

Investment Disputes, although Jordan ratified the accession agreement in 1972.

- The investor will re-export, sell or waive the exempted fixed assets to another investor who is beneficiary or not benefiting from exemptions in accordance with special provisions (Investment Promotion Act No. (16), 2003).

In 2003, the Investment Promotion Act No. (68) was passed, which was one of the most important features of the Act (Al Momani, 2002):

A- Any non-Jordanian person has the right to invest in the Kingdom by participating or contributing, provided that the sectors and percentage of the non-Jordanian investor are entitled to participate or contribute to their borders.

B- Non-Jordanian investors are treated as Jordanian investors.

C- The investor has the right to manage the project in the way he sees it, and by the persons of his choice.

D- The non-Jordanian investor has the right to take out his capital, which he has entered into the Kingdom for investment purposes, transfer the returns and profits of his investment out of Jordan, liquidate his investment or sell his project, stake or shares without delay, provided that he has fulfilled all his obligations to third parties, and non-Jordanian technical and administrative workers in any project are entitled to transfer their salaries outside the Kingdom and in accordance with the legislation in force.

Concrete efforts have been made by the Jordanian authorities to attract foreign investment by modernizing foreign investment laws and establishing the Investment Promotion Corporation. In 1995, the Investment Promotion Corporation was established by the Jordanian government, which provides attractive and encouraging incentives to Jordanian and non-Jordanian investors alike in terms of duty exemptions, exemptions from income taxes and social services, and unrestricted capital and profit transfers. On 16

May 2004, the investment window was introduced to simplify the procedures for obtaining approval, with the volume of foreign investment in projects amounting to 136.9 million dinars.

Jordan is also linked to several agreements such as the Jordan-U.S. Partnership Agreement and the Jordan-Europe Partnership Agreement to stimulate Jordan's economy and investment, and to increase the volume of foreign direct investment through the preferential facilities granted by these agreements to Jordanian goods (Abed Rabbo, 2008).

In addition, since 2003, the Jordanian government has introduced a number of economic reforms in many areas with the aim of attracting investment, creating jobs and integrating into regional and global markets, including the establishment of specialized government institutions to encourage investment and support export growth, as well as the use of economic zones, and to achieve these objectives the Jordan Investment Authority was formed in May 2014 as part of the Jordanian government's efforts to simplify and standardize key government investment institutions. The new committee is therefore the successor to the three previous institutions: the Export Promotion Directorate of the Jordan Foundation for Economic Project Development, the Free Development Zones Authority and the Investment Promotion Corporation, so that the Jordan Investment Authority has everything necessary to make enormous gains for this country as well as the flexibility needed to respond to changes and patterns in the international and local economic investment environment.

Also, under the income tax reduction system in the less developed regions, the tax due on industrial and craft economic activities and economic activities related to schedule (3) above is reduced, with income tax due to any activity after the reduction not less than (5%) of taxable income (Income Tax Act No. 28), 2009).

The new Investment Act (2014) integrated development zones, free zones and industrial cities, the Investment Promotion Corporation and the part on the establishment of commercial centers, representative offices and exhibitions into a single joint body called the Investment Authority, which aims to reduce bureaucracy towards the investor and provide all solutions and facilities supporting his investment.

In addition, the Powers of the Jordan Investment Authority were strengthened by the adoption of investment law No. 30 of 2014, which enabled the Authority to make it the only government entity responsible for attracting investments and supporting exports, and providing a safe and stable investment environment.

The law gives the Jordan Investment Authority the authority and powers to find centralization in all investment-related procedures and accelerate them, including the establishment and regulation of special economic development zones, and the Investment Act provides for a framework for incentives and benefits available to investors and investment projects both inside and outside the current development zones or free zones, with the exception of the Aqaba Special Economic Zone.

Perhaps the most prominent feature of the new law (Investment Act 2014) is the creation of a unified investment window, which aims to provide a single place service to license economic activities in the Kingdom and simplify its procedures, and to answer investors' inquiries by various means and methods including electronic methods.

Despite these continued efforts by the Jordanian government, there are some obstacles that are considered to be an obstacle to Jordan's access to its ambitions, including: the existence of administrative bureaucracy, the multiplicity of entities that the investor must review, the monopoly of meaningful investment opportunities by a specific group of investors, the lack of a marketing program compatible with the Jordanian market, the small size of the market, the rise in income tax, sales tax and energy prices

with no stability and stability of investment policies, and the political situation Unstable in the region, particularly in Jordan's Arab neighbors, lack of investment opportunities and weak competitiveness in many economic sectors, high cost of production and financing, control of enterprises by small and medium-sized industries, low income and wage levels and the emergence of unemployment (Al Jamil, 2002).

Summary of incentives and benefits provided by the Jordan Investment Promotion Act:

Investment promotion laws reflect a strong awareness of the benefits of attracting FDI and include provisions that encourage local entrepreneurs and Jordan targets most economic sectors to give them favorable tax treatment and customs duties, which benefit from:

1. The fixed assets of the project are exempt from fees and taxes and will be entered into the Kingdom within three years of the date of the committee's decision to approve the fixed asset lists of the project, and the Committee may extend this period if it finds that the nature of the project and the volume of work in it require it.
2. Imported spare parts for the project are exempt from fees and taxes, provided that the value of these parts does not exceed 15% of the value of the fixed assets required by these parts to be entered into the Kingdom or used in the project within 10 years of the date of start of production or work by a decision of the Committee to approve the lists and quantities of spare parts.
3. The Committee exempts the fixed assets needed to expand, develop or update the project from fees and taxes if this increases at least 25% of the project's production capacity.
4. The Commission exempts from fees and taxes the increase in the value of fixed assets imported for the project account if the increase

is the result of higher prices for such assets in the country of origin, higher freight rates or a change in the transfer price (IPA 1995).

5. The project is exempted in any of the sectors or branches depending on the development area in which it is located as follows:
   1. %25 if the project is in the development zone of category A
   2. %50 if the project is in the development zone of category B
   3. %75 if the project is in the development zone category C
6. The Committee grants additional exemption if the project is expanded, developed or modernized and increases its production capacity by one year in each production increase of at least 25%, provided that the additional exemption period under this paragraph does not exceed 4 years.
7. Hotel and hospital projects grant additional exemptions from fees and taxes for purchases of furniture, furnishings and supplies for modernization and renovation purposes at least once every seven years, to be introduced into the Kingdom and used in the project within 4 years of the committee's decision to approve the lists and quantities of purchases.
8. If the project is transferred during the period of exemption granted from a development area to another development area, the project will be treated for the purposes of exemption during the rest of the period, with the development area projects transferred to it to be treated with the institution's information (Investment Promotion Act No. 16 of 1995).

## 2.5 **Recommendations:**

Based on previous findings, the current study makes the following recommendations:

1. Work on an ongoing review of the regulations and legislation governing the investment process in Jordan to address the imbalance in the texts and articles of tax legislation.
2. Examining what shortcomings have affected the attraction of investments in some sectors, particularly the industrial sector, and what incentives are required for these sectors and what are absent from them, the study also recommends the development of a comprehensive new tax law for this sector with the inclusion of financial incentives as a tax exemption rate for different types of industries and their importance in the Jordanian economy.
3. Work to unify and simplify investment procedures in Jordan, especially since there are many parties (ministries, institutions and government agencies) related to the investment process in terms of licenses and the application of regulations and laws other than those related to tax legislation.
4. Further scientific studies similar to the subject of the current study to include other environments and communities with the aim of taking advantage of their findings and circulating their recommendations.
5. In order to achieve Arab economic integration, and in line with Arab national objectives, Arab legislation should concern

Arab investment with preferential treatment than those it decides for foreign investments other than Arab, and on the other hand, Arab joint projects, in particular productive projects that satisfy basic needs on other projects, should be distinguished by special treatment in terms of expanding benefits and tax facilitation in support of the Arab national trend aimed at expanding the productive base on an integrative basis.

6. The application of the indirect tax system in the event of difficulty in collecting direct tax from within, direct taxes on the part of governments are seen as optional while it is a compulsory tax, but on the other hand this is contrary to the principle of income distribution, which assumes that income tax is a compulsory tax collected from high-income people to act on projects and services that serve the lower income class and contribute to support for the poor.

## List of references

### A- Arabic references

Al Habib, Mashri (2012), Tax Policy and Its Impact on Investment - The Case of Algeria - Ll.M., Specialty business law, Faculty of Law and Political Science, Mohamed Kheder University, Bskra

Hijazin, Jihad (1999). Public Finance and Tax Legislation, Oman: Wael Publishing and Distribution House.

Hamdallah, Muhammad (2005)." Foreign direct investment in Islamic countries in light of the Islamic economy", Al Nafis Publishing and Distribution House, Amman.

Al-Hanawi, Said (2003). Tax systems are an analytical introduction to the knowledge, Cairo: University House.

Hanish (1992), tax and its role in promoting investments in the private national sector, University of Algeria- Institute of Economic Sciences

Khatib, Mohamed (1997). Photo Tax evasion, Cairo: Arab Renaissance House.

Rahal, Mustafa (2011), impact of the Temporary Income Tax Act (28) of 2009 in encouraging investment in Jordan, Business School, Accounting Department, Middle East University.

Zaki, Sayah (1987). Investment Principles, Beirut: Curriculum Publishing and Distribution House.

Suleiman, Hyam (2016). Indirect tax exemptions on investment in Sudan 2001-2013, unpublished master's letter, Sudan.

Shamia, Atef (1997). Encouraging investment and security requirements, Palestine: Al Haq Publishing and Distribution Foundation

Abed Rabbo, Reda (2008) "Determinants of FOREIGN DIRECT INVESTMENT IN THE AGE OF GLOBALIZATION", A COMPARATIVE STUDY OF EXPERIENCES FOR EAST AND SOUTHEAST ASIA AND LATIN AMERICA WITH APPLICATION TO EGYPT, UNIVERSITY HOUSE, ALEXANDRIA

Ezzedine, Walid (2010) INVESTMENT INCENTIVES IN ACCORDANCE WITH THE LATEST ECONOMIC LEGISLATION, CAIRO: ARAB RENAISSANCE HOUSE.

Al-Maliki, Hessen (2001). "The importance of foreign investment in Jordan and its basic determinants", Ennahda Magazine, Faculty of Economics and Political Science, 2 (4), p. 21-40

Mabrouk, Samer (2007). The impact of income tax on private sector investment decision in the West Bank for the period 1994-2005, unpublished master's letter, National University of Success, Nablus.

Mahlawi, Ali (2015). The role of tax policy in stimulating investment, unpublished master's thesis, University of Menoufia.

Msimi Yahya (2006), The Role of Tax Policy in Encouraging Investment in Developing Countries - The Case of Algeria - A Supplementary Memorandum for a Master's Degree in Accounting and Finance, Faculty of Economics, Commercial Sciences and Management Sciences, Arab University Ben Mehidi.

Momani, Jibril (2002). The role of incentives and tax procedures in encouraging investment, unpublished master's thesis, University of Jordan, Amman.

## B- Foreign references:

.

Hohots,Viktor,(2000).**The Role of the tax System of Ukraine**,Rusia. and Kazakhstan in attracting foreign Investments, Queens University at Kingston, Canada

Jacob, Martin; Michaely, Roni, Maximilian, 2016, **The Effects of Consumption Taxes on Corporate Investments**

Nistor Loan-Alin , Paun Dragos ,2013, **Taxation And Its Effect on Foreign Direct Investement – The Case of Romania** , Universitatea Babes-Bolyi .

Oluwole Obayami, (2001).**Nigeria's New Investment Laws Revisited**, the Journal of Business law 2001,pp (209-216)

Report, Ionel(2013) **Corporate Income Taxation Effects on Investment Decisions in The European Union**

Talpos, Ioan; Vancu, Ionel, 2009, **Corporate Income Taxation Effects on Investment Decisions in The European Union**

Voget , Johanees ,2010, **The Effect of Taxes on Foreign Direct Investment , University of Mannheim** .

## C- Laws

Investment Promotion Act No. 30 of 2014.

Investment Promotion Act No. 15 of 2003.

Income Tax Act No. 28 of 2009.