

Effects of new amendments of income tax law on SME sector in Palestine

It is well known that SMEs contribute to diversifying the sources of income, expand the production base, provide employment opportunities, and achieve economic integration. All statistics issued in Palestine point to the importance of the size and number of SMEs in Palestine and their role in reducing poverty and increase job opportunities. Despite this, the SME sector suffers from financial and non-financial obstacles and needs far more care from the government.

Where volume of banking finance to this sector in recent years has increased, it still requires clearer legislation and regulation to help it develop.

The recent amendments to the Palestinian income tax law created wide controversy in civil organizations and non-governmental organizations in Palestine. There is no doubt that the distribution of tax burden and increase in tax revenue is a proper financial policy which achieves social justice and redistributes income. However, under the current circumstances in Palestine, these amendments did not carefully consider occupation, the economy's dependence on others, the need to encourage local and foreign investments which may have a negative effect on the economy.

The fact that these amendments have increased the tax burden on taxpayers, particularly employees, farmers and individuals and in the same way have reduced tax exemption, will, no doubt, affect the volume of consumption and volume of production which, in turn, will affect the whole Palestinian economy particularly the weaker and lower capacity (SMEs) to face these changes.

According to several economic experts the amendments of the law addressed some good points and positive items such as redistribution of the national income, but it doesn't contain any reference to small businesses as well as tax exemptions for small enterprises particularly start up businesses. On the contrary, the new amendments equated between all economic sectors, all business activities and sizes of businesses.

Regardless of the controversy about the impact of the new amendments, the legislator is required to give priority to the SME's sector. This can be done through governmental support and tax exemptions for reasonable periods to encourage this very important sector and differentiate between SMEs and other larger firms. Finally, the legislator must not forget that the SMEs is the most important source of employment and comprises the core of our national economy. Even if the volume of proposed bank lending increased to support the direct financial side, the SMEs sector still needs more formal support in terms of legislations, infrastructure development, tax exemptions and regulations to enhance and encourage local & foreign investments in Palestinian SMEs.

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