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Jordan Levies New Special Taxes on Food and Beverage Products

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Report Highlights:

Commencing February 15, 2018, the Jordanian government is imposing a 20 percent sales tax on 164 items, mostly food and beverage products (including carbonated drinks); the tax previously was set at 10 percent. The government, aiming to boost its revenue, is now increasing the sales tax to 10 percent on packaged dairy products, eggs, and fruits; previously taxes ranged from zero to four percent. The sales tax on essential food commodities such as sugar, rice, flour, cooking oil, lamb, beef, chicken, fish, fresh milk, and tea remains unchanged at zero percent (in order to promote domestic production). Jordan's Customs Authority is amending its by-laws to levy an additional five percent value-added-tax (VAT) on imported commodities (including food products) valued at greater than \$142 but less than \$14,200.

General Information:

The Government of the Hashemite Kingdom of Jordan, supported by the International Monetary Union (IMF) is proceeding with fiscal consolidation. The measures being implemented include tax changes and a streamlining of the public sector, as well as the removal of politically sensitive subsidies (including flour used for local bread production). These are part of Jordan's commitments to the IMF under the 2016-19 extended fund facility (EFF) aimed at rationalizing the country's fiscal position and long term stability.

With the 2018 state budget approved by the parliament, the government is proceeding with tax changes. Commencing February 15, 2018, it is imposing a 20 percent sales tax on 164 items (impacting imports and domestic manufactures alike), mostly food and beverage products (including carbonated drinks); the tax previously was set at 10 percent. The government, aiming to boost its revenue, is now increasing the sales tax to 10 percent on packaged dairy products, eggs, and fruits; previously taxes ranged from zero to four percent. The sales tax on essential food commodities such as sugar, rice, flour, cooking oil, lamb, beef, chicken, fish, fresh milk, and tea remains unchanged at zero percent (in order to promote domestic production).

Jordan's Customs Authority is amending its by-laws to levy an additional five percent value-added-tax (VAT) on imported commodities (including food products) valued at greater than \$142 but less than \$14,200. FAS Amman understands that goods valued at \$14,200 or less, but imported by non-importer card holders (i.e., non-commercial shipments) remain exempt from the new additional value-added-tax.

Government authorities maintain that the bread subsidy is unsustainable; to appease lower- and middle-income citizens, it announced social supports to offset the impact of subsidy reform (see, GAIN – JORDAN No. JO18001 – Jordan Ends Bread Subsidies, Implements USDA-Style SNAP EBT Programs). Reportedly Jordanian families earning JOD 12,000 (\$16,920) and individuals earning up to JOD 6,000 (\$8,460), estimated at around 6.2 million people (Jordanians and Palestinian refugees) will receive cash payments (also included are civil servants and military employees, pensioners, and National Aid Fund beneficiaries).

The government seeks to generate from consumers an additional \$635 million in new tax revenues to narrow the budget deficit. Reportedly the country's total revenue for 2018 is set at Jordanian dinar (JOD) 8.5 billion (or \$11.9 billion at JOD 1 = \$1.41), including foreign grants of JOD 700 million (\$987 million). With an expenditure of over JOD 9 billion (\$12.6 billion), a deficit of roughly JOD 543 million (\$765 million) or around 1.8 percent of 2018's gross domestic product (GDP) (including grants) is expected.

The fiscal deficit (including grants) reached JOD 726 million (over \$1 billion) in 2017 (January-September). Jordan's nominal GDP in 2017 is reportedly estimated at JOD 29 billion (\$40.8 billion), and forecasted to rise to JOD 31 billion (\$43.7 billion) in 2018 (Economist Intelligence Unit). The budget deficit as a proportion of GDP reportedly reached over 90 percent by 2017 year's end; it is expected to ease to about 84 percent by 2022. Indications are that expenditure will continue to rise as refugee support remains a burden.

Since the onset of the civil war in Syria and resulting refugee crisis, one of Jordan's most pressing

socioeconomic challenges has been managing the influx of over 654,000 UN-registered refugees, more than 80 percent of whom live in Jordan's urban areas. Jordan's own official census estimates the refugee number at 1.3 million as of early 2016. Sources indicate that the large number of refugees has impacted Jordan's social fabric, economy, and security. In addition to the refugees there are 1.6 million foreign nationals residing in Jordan; the country's total population (composed of nationals, refugees, and foreign residents) numbers over 10.2 million (Central Intelligence Agency, July 2017 estimate).