DOING BUSINESS

IN TUNISIA

The network for doing business

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1 – INTRODUCTION

UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in over 95 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Tunisia has been provided by the office of UHY representatives:

UHY CNBA
Tour Narcisse, Avenue du Japon
Montplaisir
Tunis
Tunisia

Phone + 216 71 951 058
Website www.uhy-cnba.com

You are welcome to contact Raoudha Trojet Ben Abdelkrim (r.trojet@uhy-cnba.com) for any inquiries you may have.

A detailed firm profile for UHY's representation in Tunisia can be found in section 8.

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at June 2019.

We look forward to helping you do business in Tunisia.

2 – BUSINESS ENVIRONMENT

BACKGROUND

Tunisia is situated in North Africa, between Algeria and Libya.

It has a 1,300km coastline running along the Mediterranean and is ideally located along some of the world's major shipping routes.

Tunisia occupies a strategic geographical position that supports direct ties with the countries of the European Union (EU) and the countries of North Africa, the West and the Middle East. Tunis is less than a three hours' flight from most European capitals.

French and Arabic are widely spoken among the population of 11.6 million; English is also widely used in business.

POLITICAL SITUATION

Tunisia achieved independence from France in 1956 with the leadership of Habib Bourguiba, who later became the first Tunisian president.

In November 1987, doctors declared Bourguiba unfit to rule and, in a bloodless coup d'état, prime minister Zine El Abidine Ben Ali assumed the presidency.

The 2010–2011 Tunisian revolution saw a popular uprising against the government of long-time incumbent Zine El Abidine Ben Ali, leading to his exile in January 2011 after 23 years in power.

After a period of turmoil and political manoeuvring, elections to a Constituent Assembly were held on 23 October 2011, with both international and internal observers declaring them free and fair. The 'Ennahda Movement', formerly banned under the Ben Ali regime, won a plurality of 90 seats out of a total of 217.

On 12 December 2011, former dissident and veteran human rights activist Moncef Marzouki was elected as president of Tunisia by a ruling coalition dominated by the moderate Islamist Ennahda party, and sworn in on 13 December 2011.

Following the failure of the Ennahda party in the governance of the country and with the assassination of several politicians, the country was once again plunged into crisis. National dialogue and negotiations between the parties did not manage to find a favourable solution. On 29 January 2014, a new head of government, the technocratic and apolitical Mahdi Jomaâ was chosen to form a competent independent government and lead the country out of the current political crisis to free and independent elections.
he Tunisian presidential election of 2014 is the first presidential election by universal, free and democratic suffrage of the country. This is the eleventh presidential election in Tunisia, the tenth in direct universal suffrage and the first since the 2011 revolution.

Following the parliamentary elections that saw the Nidaa Tounes Party top the list and their leader Béji Caïd Essebsi was elected president of the Tunisian Republic on 21 December 2014 for a 5 years term.

Béji Caïd Essebsi - leader of Nidaa Tounes, was a former minister under Habib Bourguiba and president of the Chamber of Deputies under Zine el-Abidine Ben Ali.

ECONOMY

ECONOMIC PROGRESS

The government's control of economic affairs, while still significant, has gradually lessened over the past decade through moderately increased privatisation in some industries, simplification of the tax structure and a more prudent approach to debt.

Progressive social policies have also helped raise living conditions in Tunisia relative to the region; Tunisia is more prosperous than its neighbours.

Before the revolution, Tunisia had an average annual growth in economic activity of about 5% and was relatively well in control of the financial equilibrium. After the revolution, growth rates collapsed, the Tunisian economy slowed sharply and became fragile since the political, economic, social and security upheavals that affected the country.

Poor economic growth and large increases in public spending, including wages, coupled with delays in implementing key reforms, have kept fiscal and current account deficits high. The unemployment rate remains high (15.3% in Q1 2019).

The Tunisian authorities are resolutely advancing in their program to stabilize and reform the Tunisian economy, while taking into account the socio-political constraints, which will be reinforced as the presidential and parliamentary elections are scheduled for the end of the year.

The economic recovery remains slow and modest, with growth going from 2.6% in 2018 to 2.7% in 2019, thanks to the good performance of agriculture and services, especially tourism. Nevertheless, economic activity continues to suffer from political and economic uncertainty and structural bottlenecks such as often insufficient access to finance.

Tunisia is making good progress in its political transition program, but concrete economic results are taking longer than expected: low growth, persistent macroeconomic imbalances in public finance management and delays in the practical implementation of strategic reforms (tax reforms, civil service), labor market reforms, public enterprise reforms ...) have failed to address the main challenge Tunisia has faced since 2011: unemployment. Growth is too weak to really weigh on unemployment in a context of growing budget deficit and current account deficit.

In fact, growth has remained insufficient to reduce unemployment, which remains particularly high for young people and women.

The unemployment rate in the first quarter of 2019 fell slightly to 15.3% from 15.5% in the fourth quarter of 2018 and 15.4% in the first quarter of 2018. In the last year, the Tunisian economy created 28, 5 thousand jobs for a workforce that has grown to 31.9 thousand people.
The unemployment rate for women is 22.6% compared with 22.9% in the fourth quarter of 2018 and 22.7% in the first quarter of 2018. The number of unemployed graduates in higher education is estimated at 255.4 thousand in the first quarter of 2019 (an unemployment rate of 28.2%) compared with 261.1 in the fourth quarter of 2018 (28.8% of the unemployment rate), a decrease of 5.7m.

The authorities continued the implementation of the policy and reforms; however, high macroeconomic vulnerabilities still threaten economic stability.
The authorities tightened their monetary policy to contain inflationary pressures and managed to significantly reduce the budget deficit. Fiscal measures in 2018 and increased tax collection have improved revenues, while increases in energy prices have helped contain the growth in energy subsidies that mainly benefit the better-off. This has increased spending on public investment and job-creating social programs, which reached 5.6 percent and 2.7 percent of GDP in 2018, respectively. Considerable imbalances continue to hinder Tunisia's growth and employment potential. Growth remains too dependent on consumption, while investment and exports remain insufficiently dynamic. And the growing external and public debts of Tunisia lead to high financing needs and a heavy burden for future generations.
Finally, despite a certain decline, inflation remains above 7%, threatening purchasing power, especially for the most vulnerable members of society. The costs of food and fuel are rising sharply and the Tunisian dinar weakens against the euro; the currency in which most Tunisian imports is denominated.

The GDP per capita in 2018 reached $ 12,207 and is expected to be around 12,456 in 2019.

The budget deficit reached 6.1% of GDP in 2018, the debt 69.9%. To ensure the sustainability of public finances, the government's wage bill will need to be contained and the tax base broadened, which will increase investment.

ECONOMIC REFORMS

The short-term economic and social emergency measures taken by the government include:

- Programmes of support to employment
- Increased financial support granted to programmes of social and regional development
- Programmes to help firms affected by social unrest
- A host of tax incentives to support businesses and the national economy.

The government has conducted an exhaustive review of all official support programmes, particularly with regards to the impact of investment for employment and the promotion of small-medium enterprises (SME), especially in the farming sector.

The short-term measures which have so far been initiated by the government have contributed to the socio-economic development of Tunisia, whilst also attempting to unite areas of the country and build progress on a national scale. This will be important for creating the right conditions for the next elections.

Incentives are available for investments in regional development areas and activities which are defined by official decree. These allow for tax breaks and additional financial support to certain areas of industry, traditional agricultural ventures and some service sector activities.

The 2016-2020 strategic development plan forecasts a growth rate of 5% over the next five years, compared to 1.5% achieved between 2011-2015.

This growth chart presents an alternative development model targeting more economic efficiency based on innovation and partnership.
The achievement of this ambitious growth rate remains dependent on a recovery in economic activity and the development of the significant investment volume, bringing the rate of 18.5% of GDP in 2015 to 25% of GDP by 2020.

The realization of this rate will also depend on the improvement of the business environment, the progress in the implementation of tax reforms, the modernization of the administration and the regression of the unemployment rate.

To succeed in the 5% challenge, Tunisia faces a number of challenges:

- The first challenge concerns "the transition from a low-cost economy to an economic hub, while ensuring the establishment of a more diversified economic fabric with higher employment content.

-The second challenge is to ensure human development and social inclusion by improving the education system, with the aim of boosting employability.

- The third challenge is to reduce the disparity between the least developed inland regions, focusing efforts on improving infrastructure, promoting regional development and increasing their attractiveness, developing a system regional financing, the improvement of the living conditions of the inhabitants and the development of decentralization.

- The fourth challenge relates to the establishment of the pillars of sustainable development, which provides for a balanced development of the territory, to integrate all regions, while respecting the environment. Its realization depends on a rational use of natural resources, a better protection of the environment and a reinforced control of the consumption of energy.

The main tax measures of the 2019 finance law

1. IRPP & IS

- Exemption from income and profits from new business start-ups (Article 13)

Newly created companies that are the subject of investment declarations during the years 2018 and 2019 benefit from a total exemption of the IRI or the IS for 4 years from the effective date of entry into activity, provided that this date does not exceed 2 years. Companies that are active in the financial, energy (except renewable), real estate development, on-site consumption, trade and telecommunication operators sectors are not benefiting from this measure.

- 20% lower IS tax rate for SMEs (Article 15)

This measure applies to commercial and processing companies with a turnover not exceeding 1 million dinars excluding taxes, as well as those carrying out services or non-liberal professions whose annual turnover does not exceed 500.000 dinars excluding taxes.

- Revision of the tax due in the flat-rate scheme (Article 16)

The minimum tax, applicable for companies subject to the flat rate and achieving a turnover of less than 10. 000 dinars per year is raised from 150 to 200 dinars for companies located in the communal areas (according to the distribution adopted before 2015) and 100 dinars for companies located outside these areas. Beyond the threshold of 10. 000 dinars, the tax rate of 30% of turnover remains unchanged.

Similarly, the revision of the plan will be done after 4 years instead of 3. Companies created before 2016 will have the first update at the end of 2019.

- Harmonization of the tax regime of companies located in regional development zones

After expiry of the period of total deduction of income or profits, enterprises established in the regional development zones, whatever the date of their creation, benefit from a deduction of 2/3 of their taxable income and; companies are subject to the IS rate of 10%.
§ Increase of the tax rate on dividends from 5% to 10% (Article 46)
This measure concerns dividends paid from 1 January 2018 regardless of the year to which the benefit is attached.
Is subject to the same regime interest on credits served to banks not resident or not established in Tunisia.

- Establishment of a social solidarity contribution (CSS) (Article 53)

Are subject to the CSS, for income and profits made from 1 January 2018, natural persons submitted the IRPP according to the scale and companies and companies whether or not submitted to the IS.
The rate of CSS is 1% with a minimum equal to:

*Person subject to the IS at the rate of 35%: 300Dinars
* Person subject to the IS at the rate of 25%, 20%or 15%: 200 Dinars
* Person subject to the IS at the rate of 10%: 100 dinars
* Companies and companies exempt from corporate tax or benefiting from the full deduction of profits: 200 dinars CSS is not deductible from the tax base.

2. VAT, consumption duty and customs duty

- Increase in VAT rates (Article 43)
VAT rates are increased by 1 point from 1 January 2018. Thus, the rate of 18% increases to 19%, the rate of 12% increases to 13% and the rate of 6% increases to 7%.

- New obligations for certificates of purchase with suspension of VAT (Article 30)
Non-satisfaction of the conditions of benefit of the procedure of purchase in suspension or reduction of the VAT rate requires the information of the tax services and the return of the purchase certificate related thereto as well as the unused order forms. Failure to comply with this provision and improper use of the privilege results in penalties ranging from 1.000 to 30.000 dinars.

- Increase in customs duties (Article 39)
This measure concerns the introduction of the customs duty for one list of goods and the increase of the rate from 20% to 30% for another list.

- Reinstatement of customs duties on products of Turkish origin (Article 40)
Turkish products are now subject to the tariff at 90% of the tariffs applied in the common system for the years 2018 and 2019. As a result, the rate is reduced by 1/3 each year.

- Increase in the rate of advance on importation (Article 41)
The rate of the advance is raised from 10% to 15% for the years 2018 and 2019.

- Review of consumer duty rates (Article 45)
The consumption tax is revised for a list of goods such as sweet products, chocolate products, solutions of coffee and tea, sauces and spices, wines and other alcoholic products, tobacco, fuels, lubricants, perfumes and beauty products, cars and motorcycles, luxury watches....

Support actions for economic enterprises

1 - Exemption of newly created companies

Companies created and having obtained a declaration of investment declaration during the years 2018, 2019 and 2020 benefit from the exemption from income tax or corporation tax for a period of 4 years from the date of entry into effective activity.

The benefit of the exemption is subject to the effective entry into activity within 2 years from the date of the declaration of the investment of creation. The period of total deduction of profits or income from investments made in the regional development zones (5 years or 10 years) is deducted from the date of expiry of the exemption period of 4 years

This measure does not apply to companies operating in the financial sector, the energy sectors with the exception of renewable energies, mines, property development, on-site consumption, trade and telecommunications operators.

2 - Reduction of the corporate income tax rate

- **A rate of 25%:** The rate of corporation tax, applied to the taxable profit rounded to the lower dinar, is fixed at 25%. This rate also applies to the capital gain provided for in paragraph II of Article 45 of the IRPP and IS Code.

- A rate of 20%: This rate is set at 20% for profits from the main activity as well as the exceptional profits referred to in paragraph I bis of Article 11 of the IRPP Code and IS and according to the same conditions, for companies whose annual turnover does not exceed:

• 1 million dinars for processing activities and purchase activities for resale;
• 500 thousand dinars for service activities and non-commercial professions. The thresholds of the aforementioned turnover are determined exclusive of taxes.
• However, the interested parties can opt for the payment of the corporate tax on the said capital gain at a rate of 15% of the transfer price.

A rate of 10%: The finance law also provides for a rate of 10% for the following activities:

• businesses engaged in artisanal, agricultural, fishing or fishing vessel activities;
• central purchasing bodies of retail businesses organized in the form of service co-operatives governed by the general statute of co-operation;
• service cooperatives formed between producers for the wholesale sale of their production;
• consumer co-operatives governed by the general statute of co-operation;
• profits made in the context of industrial or commercial projects benefiting from the youth employment program or the national fund for the promotion of crafts and small trades;
• Operations carried out in the regional development zones after the expiry of the exemption period
• Activities carried out for the fight against pollution

A rate of 13.5%: It is expected a tax rate of 13.5% on companies operating in the following sectors:

• the drugs and medical materials and equipment industry,
• the textile, leather and footwear sector,
• the agri-food sectors,
• call centers,

• innovation services in the fields of computer technology, software development and data processing,
• international trading companies operating in accordance with the legislation governing them,
• packaging and packaging of materials,
• logistical services in a consolidated manner (as determined by a government decree),
the plastics industry.

A rate of 35%: A rate of 35% for the activities already indicated in Article 49 of the IRPP Code and the SI:
• credit institutions
• financial and banking organizations working primarily with non-residents for their operations with residents,
• Investment companies provided by law n ° 88-92 of August 2, 1988
• insurance and reinsurance companies,
• debt collection companies,
• telecommunications network operators,
• service companies in the hydrocarbons sector,
• companies engaged in the production and transport of hydrocarbons and subject to a tax regime under special agreements and companies transporting petroleum products by pipeline,
• companies engaged in the petroleum refining and wholesale petroleum products business.
• supermarkets (from 2020)
• car dealers from 1 January 2019
• companies representing foreign brands under a franchise agreement and whose integration rate is less than 30%, such as major brands

3. Management of employers' expenses for the Textile, Clothing, Leather and Footwear Sector:
Assumption of the employers' social security contribution to enterprises established in the regional development zones in the textile, leather and footwear sector for a further 10 years from the date of entry into operation for companies created before January 2011.

4. Authorize the additional deduction of depreciation as part of renovations.
Extension of the scope of the additional deduction of 30% for the depreciation of machinery, equipment and equipment intended for exploitation granted to newly created companies on 1 January 2017 to cover:
• companies operating before 1 January 2017, other than those operating in the financial sector, energy sectors except renewable energies, mining, real estate development, on-site consumption, trade and telecommunication operators,
• renewal operations in addition to expansion operations.

5. Increase in the value of fully depreciable capital assets
Increase in the maximum value of property, plant and equipment fully depreciable during the year of their use from 200 dinars to 500 dinars.

6. Encourage businesses to renew their operating assets
To allow companies other than those operating in the financial and energy sectors with the exception of renewable energies, mines, real estate development and consumption on-site, trade and telecommunication providers to deduct capital gains from disposal of fixed assets allocated to its operation except commercial assets, up to a limit of 50% if the sale is made within 5 years from the date of acquisition.
This provision is subject to the following conditions:
• Reserve added value when acquiring new equipment
• Recognize the gain in a non-distributable reserve account for 5 years
• Realize the reinvestment and incorporate capital appreciation in a period not exceeding the end of the second year following the recognition of the reserve.
• The non-capital reduction for 5 years after capital increase except for cases of loss reversal
• Attach with the annual declaration the declaration of investment declaration to be filed within a period not exceeding the end of the second year following the establishment of the reserve.
This provision must be applied for the assignments to be made during the years from 2019 to 2021.

7. Establish a system of accounting revaluation of assets
Encourage the financial restructuring of industrial enterprises by allowing them to recognize in their financial statements the real value of their tangible assets by allowing for a revaluation of assets with the exception of constructed and undeveloped real estate.
The revalued value may not be higher than the revalued acquisition price according to indexes established by government decree.
This provision will allow additional depreciation on the basis of net carrying amounts of revalued amounts per 5-year period for equipment.
The revaluation surplus is recognized in a non-distributable reserve account for 5 years.
The result is:
* Exemption from the capital gain on the sale of the revalued assets of the corporation tax, up to the amount of the capital gain arising from the revaluation.
* At the same time, capital gains from the revaluation and the depreciation of the disposal of the revalued assets are not allowed as a deduction from the profit subject to corporate income tax limit of the amount of the capital gain arising from the revaluation.
Disposition to be carried out for the balance sheets of 2019 and following.

8. Renewable energies sector: reduction of VAT and customs duties
Reduction of tariffs and the value-added tax of solar panels in order to further support renewable energies.
* Tourism sector: accompanying the financial restructuring of hotels
Considering the important role played by the tourism sector in the promotion of the national economy and the contribution in foreign exchange and the creation of the employment it is attributed a reduction of the profits reinvested in the financial restructuring of the hotel establishments within the limit of 25 % of income subject to corporation tax and this in connection with the subscription to the capital of these institutions in 2019 and 2020.
* Taking charge of the employers' contribution of the social security of travel agencies in southern Tunisia

3 – FOREIGN INVESTMENT

Since the 1970s, Tunisia has moved to liberalise its economy.

In setting up a structural programme, several reforms have been adopted which aim to introduce dynamic market mechanisms and encouragement private enterprise. Reforms focus on:

- The liberalisation of prices
- Reductions in the tax system
- Convertibility of the dinar (national currency)
- The disengagement of the state from competitive activities to allow for the private sector
- The introduction of reforms in the monetary and financial system.

The government plans to continue with its programme of structural reform, including fiscal consolidation and a reduction in public debt as a proportion of GDP. As a result, fiscal incentives to increase private-sector investment are being implemented and a liberalised investment code – the Investment Incentives Code – has been drawn up to encourage foreign investment. The code provides the law that governs both national and foreign investment. It enshrines the freedom to in invest in most sectors and reinforces the openness of the Tunisian economy to outside investors.

INCENTIVES

Many business incentives are offered in the form of tax exemptions, investment incentives and support for infrastructure costs and the management of employer contributions.

The Investment Incentives Code covers all businesses except for those in the mining, energy, local trade and finance sectors, which are governed by specific regulations.

Some businesses are eligible for incentives offered under the code simply through a process of self-declaration; others require prior authorisation.

COMMON INCENTIVES

These include:

- Tax relief on reinvested profits and income up to 35% of the income or profits subject to tax
- Customs duties exemption for capital goods that have no locally-made counterparts
- Suspension of VAT on the importation of goods (which are not manufactured locally) for building projects and other investment transactions
- The possibility to choose a reducing balance method of depreciation for production material and equipment where its useful life exceeds seven years.

SPECIFIC INCENTIVES

Benefits to companies that export all their goods:

- Taxation of profits from exports at the rate of 10%
- Total exemption on profits and income reinvested

- Total exemption from duties and taxes for goods including transportation equipment goods, raw materials, semi-finished products and services required for the activity needed by the business
- The possibility of sale in the local market of about 30% of total industrial or agricultural business with payment of duties and taxes required.

TAX BENEFITS

The code provides for:

- Benefits for investments in incentive zones for regional development
- Total tax exemption on reinvested profits and income
- For personal income and profits from investments in the sectors of industry, tourism, crafts and some service activities, there are tax deductions as follows:
  - A total exemption for the first five years from the date of actual activity for firms in areas prescribed for regional development
  - A total exemption for the first ten years and a maximum of 50% of the income for the next ten years, for companies established in priority areas of regional development
- Support from the state for an employer's contributions to social security for wages paid to agents for Tunisian investments in the sectors of industry, tourism, crafts and some service activities as follows:
  - In total for the first five years for firms in areas prescribed for regional development (group 1)
  - In total for the first five years and partial support (80–20%)for a further period of five years for companies located in group 2 areas
  - In total for the first ten years for companies established in priority areas of regional development
- Unlimited exemptions are offered with regards to the fund for the promotion of housing for employees (FOPROLOS) and the Taxe de formation professionnelle (TFP) for investments in tourism and in the sectors of industry , craft and some service activities in group incentive zones 2 of regional development and priority regional development activities fixed by decree
- The possibility of state involvement in infrastructure spending for industry as follows:
  - 65% of expenditure on infrastructure works in the sector of the industry of group 1, zones of incentive to regional development with a ceiling of 1 million dinars
  - 85% of expenditure on infrastructure works in the industrial sector, up to a limit of 10% of the cost of the project with a ceiling of 1 million dinars for regional development zones of group 2
    - This support does not cover infrastructure within the normal business activities and responsibilities of national agencies operating in these areas
    - The participation of state support in infrastructure work is given for investments in approved industrial areas or appointed in accordance with approve management plans.

ENCOURAGING REGIONAL DEVELOPMENT AREAS

The code also provides benefits for investments carried out in 'encouragement zones' and 'priority zones' for:

- Investments that promote agriculture
- Investments in environmental protection
- Investments that control and develop technology through a local integration effort
- Investments that support education, training, culture, health and transport.

FOREIGN INVESTMENT INFLOWS

Foreign investment flows in Tunisia reached 620.8 million dinars (MDT) at the end of the 1st quarter of 2019, whereas they were 565.5 MTD at the same period in 2018, an increase of 9.77 %.
Foreign direct investment reached 616.3 million dinars and portfolio holdings 4.5 MTD.
Those of energy, in terms of foreign investment have also increased to the same comparison period from 252 MD to 286.1 MDT.
Surprisingly, the services fell from 116.2 MTD in 2018 to 59 MTD in 2019, or -49%.
In addition, foreign agricultural investment was almost zero (0.6 MTD) in the first months of 2019.

Many companies have faced difficulties following the revolution, which caused instability in civil society. However, the government hopes to cut unemployment and lift living standards to Organisation for Economic Co-operation & Development (OECD) levels by increasing foreign and local investment, production and exports, while keeping inflation and the fiscal and current-account deficits under control.

Priorities include addressing financial sector weaknesses, which act as a drag on growth, fiscal consolidation, paying down external debt, upgrading industrial infrastructure and enhancing labour market flexibility.

Oil exploration plans are also expected to stimulate FDI. For example, Malta and Tunisia are discussing the commercial exploitation of the continental shelf between the two countries.

INVESTORS

As the country stabilises, Tunisia is of interests to investors from new countries such as the USA and countries in Scandinavia, northern Europe and the Gulf. Recently, Tunisia has attracted unprecedented levels of interest from Gulf monarchies. Their investments in services, tourism and banking have more than doubled in recent years. Arab capital currently accounts for more than 20% of all foreign investment.

Foreign investment may also be encouraged by eliminating the need for prior authorisation for the acquisition of small and medium-sized companies and for the purchase and rent of land and premises in industrial and tourist areas.

Foreign direct investment in Tunisia accounts for 10% of productive investment and generates one-third of exports and more than 15% of total employment.
After their downturn as a result of the global recession, the socio-political revolution that erupted in the country and the Eurozone crisis, FDI has rebounded strongly. However, they fell in 2013 and 2014 due to the deteriorated security environment and lack of medium-term economic visibility. Tunisia lost several places between 2016 and 2019 in the World Bank's Doing Business climate ranking (80th out of 199). However, according to the Tunisian agency for the promotion of foreign investment, FDI flows increased by 20.3% in 2015 compared to 2014. These FDIs have been reinforced towards the industrial sector for the first time since the revolution. On its own, the capital region, Tunis attracts more than half of FDI.

The main investment sectors are energy, textiles, data processing, business services and tourism
France remains the largest investor in Tunisia and accounts for 28% of total foreign investment, the United Arab Emirates: 14%; Qatar: 9%, l'Italie: 7%, l'Allemagne: 7%, Malte: 7%, Arabie saoudite: 5%, Espagne: 4% , Pays Bas: 2% and Libye : 1%

Foreign investors benefit from the free transfer of profits and capital.

4 – SETTING UP A BUSINESS

Several factors combine to make Tunisia a particularly attractive for investment projects and partnerships.

Factors include:

- The proximity of the EU and other surrounding markets (the Maghreb and Middle East, where in comparison to competing neighbouring economies, Tunisia's location results in lower transportation costs and faster delivery to market
- A new political and social stability – the signing of a national agreement by all social and political groups and the structures of dialogue have allowed for a social climate favourable to development
- Tunisia enjoys an excellent reputation in international financial markets
  - The country is a signatory to several treaties guaranteeing investments and non-double taxation, as well as to conventions on international arbitration and the protection of intellectual property. In terms of financial risk, the country is among those of the first rank in Africa and among the best in emerging economies
- A favourable tax legislation foreign investments
  - The Tunisian Code of incentives, established in 1994, is the law governing foreign and domestic investment and allows the freedom to invest in most sectors, strengthening the open nature of the Tunisian economy to outsiders
    - The Investment Incentives Code covers all sectors except mining, energy, trade and the domestic financial sector, which are governed by industry-specific regulations
- A developed transportation system
  - Tunisia benefits from eight commercial ports equipped to accommodate a variety of different methods of transportation
  - The ports of Marseille, Gêne and Barcelona are all relatively close to Tunis
  - Airport infrastructure is composed of seven international airports apportioned across the whole territory and frequented by the main airlines of Europe, the Middle East and Africa
  - The road network, of more than 32,000 kilometres, allows easy access to all regions of the country
- An effective telecommunication network, in which enormous investments have been made to develop a modern telecommunication system covering all regions of the country
- The availability of credit
  - Tunisia has negotiated credit lines with friendly neighbours (French, Spanish and Italian credit lines) to encourage the development of projects, partnerships and commercial exchanges.

For industrial activities and services, investment projects are subject to a declaration filed with the Agency for the Promotion of Industry and Innovation (API). Other activities are subject to the authorisation of the ministry responsible for the sector.

Tunisia has the following support agencies for the development of investments:

- Agency of Promotion of the Agricultural Investments (APIA)
- Agency of Promotion of the industry (API)
- Agency of Outward investment Promotion (FIPA)

- Centre of Promotion of the Exports (CEPEX)
- Specialised technical centres technical centre for cereals, technical centre for potatoes, technical centre for bio-agriculture, technical centre for agro-foods, technical centre for aquaculture
- Unique areas for the creation of enterprises in Tunis, Sousse and Sfax.

REGULATORY REFORMS

Government regulatory reforms – easing the process for investors and entrepreneurs to set up a company in the country – have boosted Tunisia's ranking in the 'ease of doing business' tables published by the World Bank and International Finance Corporation (IFC).

With a significantly improved ranking, Tunisia is reported to be 'a top regional performer' in the Middle East and Africa due to its regulatory reforms.

Through a new Law on Economic Initiative, recent reforms have included the abolishing of a 'paid-in minimum capital requirement' for limited liability companies.

The Central Bank of Tunisia now collects and distributes more detailed credit information from banks, both positive information (such as loan amounts) and negative information (such as arrears and defaults). Individuals and firms can check their credit data in all Central Bank offices.

The Ministry of Finance has introduced a new online option for paying taxes ('*télé-déclaration'*). Firms can file their tax returns online and determine the exact amount of their payment before paying taxes at the tax office.

SET-UP PROCEDURES

Procedures to start a company can be undertaken at a 'one-stop-shop', the Agency for the Promotion of Industry and Innovation (API).

The set-up process is:

- Deposit capital in a bank opened in the name of the company to be incorporated
- Register the articles of association with tax administration at the API and obtain a certificate attesting that a declaration has been filed
- File a declaration of existence with the Tax Control Desk at the API and obtain a '*carte d'identification fiscale*'. The documents required to make the declaration are:
  - Printed signature form
  - Registered copy of the articles of association
  - Copy of the minutes of the nomination of the managers (if not designated by the articles)
  - Copy of the managers' national identity cards (copy of passports for foreigners)
  - Copy of the rent agreement or the certificate of ownership of the premises where the head office is located
  - Any administrative authorisation that would be required to start the business
- Deposit documents at the *Greffe of Tribunal*. The following documents are required:
  - Printed forms (provided by the *Greffe of Tribunal* office) for the depositors to complete and sign
  - Declaration of honour signed by the managers
  - Registered statutes

   - Minutes that nominate the managers (if not designated by the articles of association)
   - Arabic translation of the main clauses of the articles
   - Declaration of the beginning of the business with the tax administration and tax identification card
   - Document providing the headquarters address
   - National identity card (or passport for foreigners) of the company manager(s)
   - Fiscal stamp
   - A proxy, if the formalities are undertaken by a party other than the manager
- Advertise in the Official Gazette (JORT) with the Government Printing Office and in two dailies, one preferably in Arabic
- Register with the registrar (*Registre of Commerce at the Greffe of Tribunal*)
- Register for social security
- Get inspected by the National Social Security Fund (CNSS)
- File a declaration with the labour inspectorate.

Company founders must file with the labour inspectorate a declaration that specifies various requirements including the number of permanent seasonal positions at the time of the declaration, and the name, age, nationality and professional skills of employees.

COMPANY TYPES

LIMITED LIABILITY COMPANY (*SOCIÉTÉ À RESPONSABILITÉ LIMITÉE* – SARL).

A standard start-up company in Tunisia often takes the legal form of a limited liability company (LLC) or SARL.

A SARL has two or more shareholders whose liability is limited to their contributions. When a LLC/SARL is made up of only one shareholder, it is known as a sole-proprietor owned company.

The minimum start-up capital for a LLC is TND 1,000 (USD 667), which should be fully paid up at the time of the company's constitution. The minimum nominal value for one share is TND 5 (USD 3.34).

Other legal forms for a start-up company are listed below.

PARTNERSHIP LIMITED BY SHARES (*SOCIÉTÉ EN COMMANDITE PAR ACTIONS)*

Such a company has two types of associates:

- Active partners, who are traders and jointly and severally liable for the debts of the company
- Silent partners who are shareholders and whose liability is limited to their capital contributions.

The number of silent partners cannot be fewer than three. The minimum start-up capital for a partnership by Shares Company is TND 5,000 (USD 3,334).

PARTNERSHIP – GENERAL PARTNERSHIP (*SOCIÉTÉ EN NOM COLLECTIF)*

General partnerships are made up of two or more partners who are jointly and severally liable for the debts of the company. The partners, belonging to the company at the time when the commitment was entered into, are jointly liable for their separate assets.

PARTNERSHIP – LIMITED PARTNERSHIP (*SOCIÉTÉ EN COMMANDITE SIMPLE*)

Limited partnerships have at least two active partners who are jointly and severally liable for the debts of the partnership and at least two silent partners whose liability is limited to their capital contributions.

JOINT VENTURES (*SOCIÉTÉ EN PARTICIPATION*)

Under a joint venture, companies form a contract by which the contracting parties freely agree among themselves to determine their reciprocal rights and duties and how to allocate profits and losses from the project, including the allocable shares of profits and losses in their taxable income.

No specific legal status exists for a joint venture in Tunisia. Generally, joint ventures operate as partnerships in the form of a company.

BRANCHES (*SUCCURSALE*)

The incorporation of a branch is relatively simple. The time limit and registration procedures are identical to those relating to a limited liability company. The directors of a branch act on behalf of the parent company and should therefore have the delegation of power.

5 – LABOUR

The government is aiming to achieve higher economic growth levels to create sufficient employment opportunities for a large number of unemployed people as well as a growing population of university graduates.

In recent years, economic commentators (such as from within the OECD), have expressed concern about a skills shortage among the labour force of 4.1 million (2017) in Tunisia.

Tunisians in employment are predominantly skilled in sectors other than those sectors from which most growth is expected. (Figures from 1995 showed that 55% of the labour force were skilled in agriculture, while only 23% had industrial skills and 22% service skills.)However, gradual increases in educational opportunities are forecast to redress the balance in part at least.

EMPLOYMENT

Statutory terms of employment specify:

- The maximum number of working days per week is six
- The duration of fixed-term contracts (including renewals) is four years
- Minimum paid annual vacation for an employee with 20 years' service is 18 working days
- A third party must be notified before terminating the employment of even one redundant worker
- The notice period for redundancy dismissal after 20 years' of employment is just over four weeks
- Severance pay for redundancy dismissal after 20 years' of employment is 13 weeks' salary.

Statutory social security contributions, paid jointly between an employer 16,57% and employee9,18%.

6 – TAXATION

MAIN TAXES

INCOME TAX

Income tax is levied at 15% of annual income of TND 1,500 (USD 1,000) or more, rising on a scale to a maximum rate of 35% on earnings above TND 50,000 (USD 35,750).

Foreign staff working for an export company or an offshore company pays a flat income tax rate of 20%.

CORPORATION TAX

Since 2007, the government has widened the scope of taxation on company revenues, while at the same time reducing the corporate tax rate from 35% to 30%, and to 20% for companies listed on the Tunisian stock exchange.

Corporation tax is 10% for agriculture and fishing companies.

TAX INCENTIVES

Investments made by companies established in free zones are allowed a tax deduction against income or profits invested in the initial corporate capital subscription.

Companies established in free zones are subject to the taxes, duties, rights and fees listed below.

COMMON INCENTIVES

- Reduction in the rate tax on profits from 35% to 25% in 2014.
- Exemption from customs duties on goods that have not manufactured locally
- A limitation of 10% of the VAT on the importation of goods
- The ability to choose the regime of accelerated depreciation for equipment and production equipment whose useful life exceeds seven years.

SPECIFIC INCENTIVES

Benefits to companies that export are:

- Total exemption from tax on profits from exports during the first ten years, and exemption of 50% from the 11th year for an unlimited period
- Total exemption of profits and income reinvested
- Total exemption from duties and taxes for goods including transportation equipment goods, raw materials, semi-products and services necessary to the activity
- The possibility of sale on the local market of 20% of production.

PROMOTION OF AGRICULTURE

Benefits are:

- Total exemption from tax on reinvested profits and income
- Total exemption from tax for the first ten years of operation
- Suspension of VAT on imported capital goods which have not been manufactured locally
- The possibility of state participation in expenditure for infrastructure development areas for aquaculture and crops using geothermal energy.

- A premium about 7% of the value of the investment
- 8% an additional premium of the value of the investment may be granted for agricultural investment in areas with harsh climate: Gabes, Gafsa, Medenine Kebili, Tataouine and Tozeur
- 25% an additional premium of 25% of the value of the investment may be granted for fishing projects in the coastal ports north of Bizerte to Tabarka.

ENVIRONMENTAL PROTECTION

For investments by companies for projects of environmental protection and waste treatment, the Code provides for the following advantages:

- Abatement of 50% of revenues or profits reinvested
- Tax rate reduced to 10% of revenues and profits
- Bonus 20% of the value of investments
- Suspension of VAT for most of the goods.

PROMOTION OF TECHNOLOGY AND RESEARCH AND DEVELOPMENT

The Code encourages investment involved in the control and technology development through local integration schemes:

- Full support by the state for a period of five years, with social security contributions for the recruitment of new degree students from Tunisian higher education
- Support by the state of 50% of the payroll for five years and the use of a second or third shift for companies not operating in a continuous manner.

INVESTMENT SUPPORT

Areas of education, training, cultural production, health and transport benefit from:

- A deduction of profits reinvested to 50% of net profits subject to corporate income tax,
- The tax rate reduced to about 10% of revenues and earnings
- The suspension of VAT on imported goods that do not have an equivalent manufactured locally.

MAIN REGIONAL AID TO TUNISIA

The Investment Incentives Code provides benefits for investments in the areas of incentives and priority areas:

- Total exemption from income tax for a period of ten years and 50% reduction in the tax base for a further period of ten years
- Total exemption from tax on reinvested profits and income
- Support by the state for the employer's contribution to statutory social security, or 15.5% of the wage during the first five years
- The possibility of participation of the state in infrastructure spending.

Areas of encouragement investment are set at a premium of 15% of the value of the investment, working capital excluded and limited to TND 450,000.

Priority areas are set at an investment premium of 25% of the value of the investment, excluding working capital at TND 750,000.

BUSINESS TAXATION

INCOME TAX

Subject to international conventions and specific agreements, income tax is payable by any person resident in Tunisia under all income earned during the year.

Those considered as residents are:

- People who have their habitual residence in Tunisia
- People who live in Tunisia for at least 183 days (continuously or not) per calendar year, if they do not have a principal residence in the country.

Taxable income includes:

- Income from immovable property
- Revenues from capital and securities
- Salaries and annuities
- Revenues from paid activity
- Revenues from operating in Tunisia.

CORPORATE TAX

The standard rate is 30%.

However, a 10% rate applies to certain types of businesses engaged in craft, agricultural, fishing or fishing boat equipment, as well as cooperatives or consumer services.

The minimum tax required is based on the net taxable income of a company, subject to a statutory minimum of 0.5% of turnover, with a ceiling of TND 2,000.

TAX INCENTIVES

Total exemption from income tax for the first ten years can apply to:

- Revenues from exports
- Agricultural activities
- Activities implemented in specified areas for regional development.

There is a 50% reduction in the tax base for:

- Export earnings from the 11th year of activity and for an unlimited duration.

There is a total exemption (except the minimum required tax) for the tax on profits under Section 49 of the Investment Code, for activities in the following sectors:

- Education, teaching and training
- Protection of the environment.

REBATES

Allowances are granted in respect of profits and reinvested earnings ranging from 35% (rule) to 100%, subject to a minimum tax of 15% of general benefit to the company and 45% of the tax income for individuals.

DIVIDENDS

Dividends received by corporations are not taxable in Tunisia. They are freely transferable to the extent that they arise from activities under the Investment Incentives Code.

Under the 2014 Finance Law, profits or income distributed from January 1, 2015 are subject to a withholding tax at the rate of:
• 5% when distributed to:
• Individuals resident in Tunisia;
• Non-resident individuals;
• Non-resident legal entities.
• 25% when distributed to residents of tax havens
Contribution of the 2015 Finance Law
Since profits earned by Tunisian permanent establishments of non-resident companies are considered distributed as soon as they are realized, the permanent establishments in question are required to report these distributed profits and to pay tax thereon at the rate of 5%, or possibly at the rate of 25% for permanent establishments belonging to companies resident in tax havens.
Contribution of the 2018 Finance Bill.
Increasing the tax rate from 5% to 10%
In the context of greater harmonization between the taxation of labor income and that of capital income, the 2018 Finance Bill proposes raising the tax rate on dividends from 5% currently to 10% on:
• The profits distributed as of January 1, 2018;
• The profits made in 2017 and subsequent years by Tunisian permanent establishments of non-resident companies.
Exemption from tax on dividends distributed in 2018 and 2019 by fully exporting companies
On the other hand, in order to encourage investors to maintain their participation in the capital of fully exporting companies and ensure their sustainability, given the economic difficulties faced by the country, Article 47 of the 2018 draft budget law proposes to Exempt the profits distributed, during the years 2018 and 2019, by fully exporting companies within the meaning of the legislation in force.
The proposed exemption includes distributions to resident and non-resident individuals and non-resident corporations (resident corporations are exempt), notwithstanding the existence of an agreement to avoid double taxation of the taxpayer.

OTHER TAXES

VALUE ADDED TAX

The value added tax applies to all industrial production, crafts and services. It does not apply to agriculture.

There are four VAT rates:

- Socially important products, as well as medical and educational products are taxed at 7%
- Capital goods having no equivalent locally produced and some service industries such as tourism, transportation, training services and internet subscriptions are taxed at 13%
- Capital goods from locally manufactured raw materials and semi-products, and non-food consumer goods are taxed at 19%
- Luxury products are taxed at 29%.

PROFESSIONAL TAX

This tax applies to the products of mechanical and chemical industries.

It is overseen by the Fund for Industrial Competitiveness (FODEC).

The rate is 1% on turnover excluding VAT productive enterprises.

MUNICIPAL TAX

Companies are subject to local taxation. This fee applies for a whole range of companies from institutions to industrial and commercial firms. The rate is 0.20% of sales.

7 – ACCOUNTING & REPORTING

The Financial Market Council is responsible for monitoring the observance of reporting obligations for all companies listed on the stock exchange, all insurance companies, all banks and companies with more than 100 shareholders, etc.

Its role is to confirm that the information provided or reported conforms to legal and statutory requirements. Economic observers have suggested that the volume of work it monitors is too large for the resources it has at its disposal.

The World Bank, among other global financial organisations, has acknowledged an increased transparency in Tunisia's account reporting over recent years. Tunisia scores relatively well compared with other countries in the Middle East and North Africa. However, compared with international reporting standards, economic observers consider that further regulatory reforms are still needed.

In a report by the Financial Standards Foundation – a standards compliance index measuring 81 countries globally against key financial systems standards – Tunisia achieves a low overall compliance rating when set against international standards and codes, with a score of 30.83 out of 100 in its standards compliance index. The foundation also acknowledges, however, that Tunisia continues to improve the quality and dissemination of its statistical data and increase the transparency of its monetary policy.

Tunisia has two professional accountancy bodies authorised to conduct statutory audits. Originally, the Institute of Chartered Accountants (*Ordre des Experts Comptables de Tunisie*, or OECT) had the exclusive right to conduct audits, but this right was later extended to another professional body, the Society of Accountants.

The OECT adopted International Standards on Auditing (ISAs) in 1999, which came into effect for reporting periods beginning in 2000. Before the adoption of ISAs, the OECT issued auditing standards which, according to the World Bank, were "seriously deficient". This judgement prompted Tunisia to switch to international standards.

The Society of Accountants has never adopted ISAs, raising concerns about the quality of some audits according to the World Bank.

The World Bank has recommended all statutory audits should be conducted in accordance with ISAs. It has also pointed out discrepancies in the legal and regulatory framework, stressed the necessity to resolve these discrepancies, and recommended upgrading academic and professional education and training in accounting and reporting standards.

Meanwhile, state-owned banks are gradually being sold off and measures to improve the quality of service are being implemented. The banks are also set to take a more active role in providing finance to the private sector. Currency reform is being accelerated and emphasis placed on the Tunisian dinar being fully convertible.

The statutes of the Central Bank of Tunisia have also been reformed and its role modified.

Indicators relating to bad debt have improved, with the reported level of ‘bad’ loans (deemed to be unproductive or a risk) held by public sector banks falling. The government is looking to improve public sector bank management further through privatisation and mergers, by restructuring non-productive loans particularly in the tourism sector and reducing risky loans to 10%.

8 – UHY REPRESENTATION IN TUNISIA

CONTACT DETAILS

UHY CNBA
Tour Narcisse, Avenue du Japon
Montplaisir
Tunis
Tunisia
Tel: +216 71 951 058
Fax: +216 71 901 864
www.uhy-cnba.com

Year established: 1983
Number of partners: 3
Total staff: 13

CONTACTS

Liaison contact: Islem Ridane
Position: Managing Partner
Email: i.ridane@uhy-cnba.com

Liaison contact: Bechir Ouiba
Email: b.ouiba@uhy-cnba.com

ABOUT US

CNBA provides multi-disciplinary services covering key sectors such as hospitality, service, transport, manufacturing and agriculture. Our approach is innovative and proactive.

BRIEF DESCRIPTION OF FIRM

UHY CNBA is a cross-disciplinary service firm managed by experts and multidisciplinary consultants capable of providing a wide variety of client engagement services and tasks, such as management consulting, tax and legal assistance, accounting, auditing, and many more. Highly-qualified auditors and consultants are brought together to foster a team spirit which is the basis of our strength. We are led by professional and trust relationships and our expert knowledge leads to an assured and efficient solution to client needs.

SERVICE AREAS

Audit
Tax and legal
Advisory
Bookkeeping

SPECIALIST SERVICE AREAS

Japanese business advisory services.

PRINCIPAL OPERATING SECTORS

Hospitality
Transportation
Manufacturing
General Services
Agriculture

LANGUAGES

Arabic, French, English, Japanese

CURRENT PRINCIPAL CLIENTS

RIU Palace Marhaba Hotel
SDV Tunisia

ICF
GEODIS Tunisia
SMTT
SITPEC
Star Tourisme (Vincci Eden Star Hotel)
ZENITH Hotel
Nesrine Hotel
BAMI
PROSAMI

OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST

Our firm's recent admittance to UHY membership has not yet provided an opportunity for international work.

BRIEF HISTORY OF FIRM

Established in 1983, the firm was founded by the late Nouri Ben Abdelkrim, a member of the Tunisian Board of Chartered Accountants.

The firm's prior history includes experience with several international accountancy networks and steady growth over the years has led to an acknowledged and respected reputation within the professional community in Tunisia.

The firm joined UHY in 2012, re-branding to UHY CNBA in the process.

LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

To find out how UHY can assist your business, contact any of our member firms. You can visit us online atwww.uhy.com to find contact details for all of our offices, or email us atinfo@uhy.com for further information.