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EGYPT POLICY DIALOGUES

EGYPT: THE PRICE OF INACTION ON TAX REFORM

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In partnership with



About the Author

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Cover photo: Egyptian lawyers shout slogans during a protest against the newly adopted value-added tax (VAT), in front of the Court of Cassation - Cairo, Egypt, 01 October 2016. ©EPA/Mohamed Kamal Egypt Out

January 2023

Introduction

Like public finances elsewhere, the public finances of the Egyptian state suffer from a semi-permanent deficit. Although a limited deficit in state budgets is acceptable for most prevailing economic theories, the persistent and worsening deficit in public budgets leads to severe phases during which the economy suffers. During periods of economic prosperity, soft loans are easily accessible, which encourages states to rely on borrowing as a secondary source of financing for extended periods until it becomes a permanent source of financing. The financial market eventually puts an end to every period of easy borrowing, forcing the government to face the reality it has tried to avoid. Under such circumstances, governments have three tools at their disposal: borrowing at the highest interest rate, austerity and disabling services and social protection programs, and raising taxes and customs duties.

Borrowing at the highest interest rate is every government's first choice because it does not require a reformulation of the social, economic, and political contract between the state and its citizens. But the price of such a policy is a worsened deficit. Borrowing, before or after a crisis, is not a solution but merely a postponement of the crisis, in the hope that the market recovers. When it is no longer possible to borrow amid the worsening economic conditions of a crisis, the government resorts to other tools with varying degrees of risk. Austerity is a recipe for widespread social outcry and has catastrophic effects on the poor and middle classes as well as the overall economy due to decreased purchasing power. To overcome the crisis with the least social tension, the state can also resort to taxation to generate possible revenues whether from the economy as a whole or the sectors and classes with concentrated surpluses of value. The more severe the crisis, the more the government is forced to use additional tools and impose strict measures. Debts are nothing but deferred taxes, and taxes remain key in every economic crisis.

When a global economic crisis looms, questions abound. Could the crisis be approached with fewer social and economic burdens and with more room for maneuver? In this context, this paper will discuss the tax policies adopted in the past few years in Egypt and how they could have been more effective. The primary role of taxes is to meet the government's financial needs to implement its role under the social contract, whether formal or informal. Therefore, taxes are a convenient introduction to understanding the political economy of any state. Tax policies are an essential tool for achieving macroeconomic goals, and they directly reflect the political and socioeconomic considerations driving a country's economy. This paper will address the main role of taxes in financing the requirements of the social contract from the perspective of the adequacy and effectiveness of tax collection.

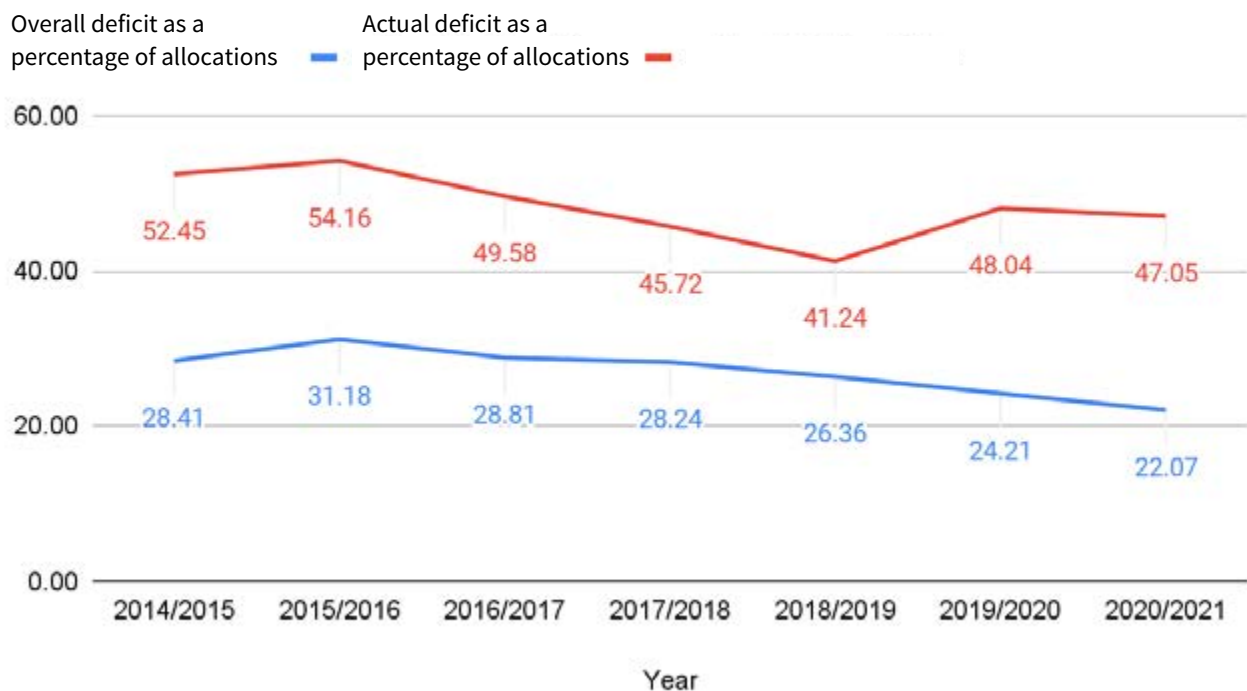
Adequacy and Effectiveness Criteria

Adequacy and effectiveness are the two basic criteria for measuring the ability of a tax system to carry out its primary mission. Adequacy is measured by the extent of surplus or deficit in the budget. Effectiveness is measured in several ways, including the tax efforts, or by comparing it with the collection ratios to GDP in similar economies.

As Figure 1 shows¹, the continued overall deficit – which is the

budget deficit excluding loan repayment and net possession of financial assets – produced a clear inflation in debt service, whether as interests or loan repayments, until it exceeded 53% of total allocations for the fiscal year 2022.

Figure 1: Actual deficit and overall deficit as a percentage of allocations



¹ The financial statement on the draft state budget for the fiscal year 2016-2017. Ministry of Finance (Arab Republic of Egypt).
 The financial statement on the draft state budget for the fiscal year 2019-2020. Ministry of Finance (Arab Republic of Egypt).
 The financial statement on the draft state budget for the fiscal year 2022-2023. Ministry of Finance (Arab Republic of Egypt).

This meant that the government could not benefit from a decrease in the overall deficit resulting from austerity measures, as many of the loans that financed the high deficit between 2014 and 2018 had to be repaid. This case represents a clear failure in terms of the adequacy criterion. Such inflation of debts and servicing expenses is rare, and it burdens the sustainability of state expenditures, especially

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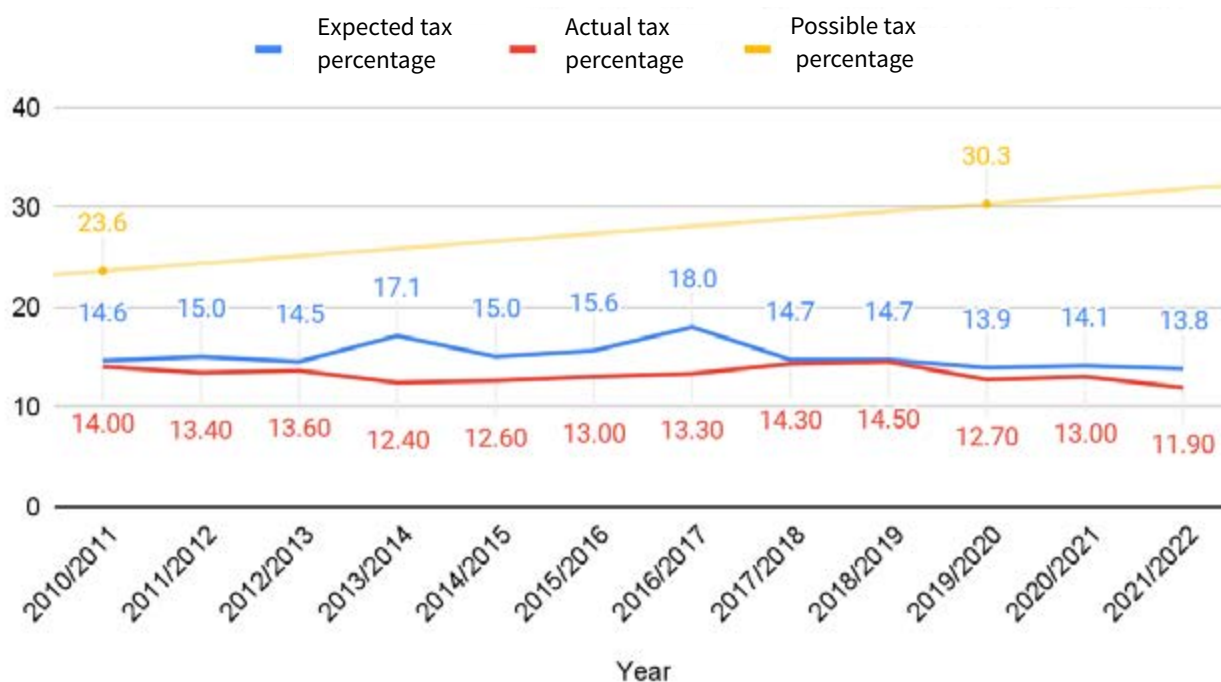
since government spending on services is closely linked to improving economic growth, income and tax revenues. Spending on debt servicing, however, is not associated with any of these side benefits.

As for the effectiveness criterion, estimates of tax effort for Egypt, in general, are low and hover around 61.8% in 2011 according to the International Monetary Fund (IMF)², and they decreased to about 45.5% in the 2019 estimates.³

By including the decrease in the 2019 tax collection, the percentage is closer to 41.9%. This rapid decline is a result of the decreased percentage of taxes collected of GDP, coinciding with economic growth leading to an exclusionary pattern in the ability to collect taxes (see Figure 2)⁴.

This widening gap is the price of inaction on tax reform in Egypt, and it is one of the main reasons for the fragility of its public finances. Egypt's tax effort was not always low. Throughout the 1960s and 1970s, the Egyptian tax effort was relatively high as the total tax revenue since the percentage of GDP rarely dropped below 20%. Total tax revenues began to erode in parallel with the economic crisis of the 1980s, reaching its lowest level in about thirty years by 1990, at 13% of GDP.⁵ Egypt never recovered from this decrease, although several laws and amendments were passed, notably, the amendments of 2005 establishing the current tax system, which produced a short-lived improvement in total tax revenue.

Figure 2: Taxes as a percentage of GDP



2 Fiscal Affairs Department. Revenue Mobilization in Developing Countries. International Monetary Fund. March 8th, 2011, p. 60

3 Revenue Mobilization for a Resilient and Inclusive Recovery in the Middle East and Central Asia, p. 43.

4 Financial statement on the state's draft general budget for the fiscal year 2016-2017. Ministry of Finance (Arab Republic of Egypt). Financial statement on the state's draft general budget for the fiscal year 2019-2020. Ministry of Finance (Arab Republic of Egypt). Financial statement on the state's draft general budget for the fiscal year 2022-2023. Ministry of Finance (Arab Republic of Egypt).

5 World Bank. Databank: Tax Revenue (% of GDP), Egypt. <https://data.worldbank.org/indicator/GC.TAX.TOTL.GD.ZS?locations=XN-XP-EG-ZQ>.

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This context is very important, especially when the country's poverty is cited as the reason for the decline in tax revenues. This decline was not despite the policies adopted but because of them. The neoliberal tax policies ushered by Youssef Boutros-Ghali in the mid-2000s consisted mainly of stimulating tax registration by reducing tax rates, claiming that the surplus generated by such tax exemptions would be invested by businessmen to stimulate economic growth and offset the losses caused by the exemption due to the accelerated growth associated with increased tax registration. The main problem with these policies is that they are completely utopian and had proven their ineffectiveness long before Egypt adopted them for over a decade. There is no real connection between reducing the rate of profit tax and investment ratios – except for welcoming shell corporations evading taxes.⁶ The actual result of such tax policies is usually a temporary improvement after integrating a larger number of taxpayers, followed by a decrease in the medium and long term due to decreased tax rates. The economic growth required to compensate for the losses caused by cutting the tax rate by half exceeds 7% annually for an entire decade. Neoliberalism considers that the main problem lies in the narrowness of the tax base rather than in its depth. Therefore, it focuses on including the largest number possible of small taxpayers in return for lightening the burden on the largest taxpayers. This policy may work in rich countries, but it has failed in the developing world. Smaller taxpayers are more difficult to manage, track, and monitor, especially since most of them do not and cannot rely on a documented administrative and financial system. Also, adding a tax burden that they had not dealt with before could tip the balance at the expense of their profitability and cause the loss of their business, which in turn could negatively affect economic growth. In the case of Egypt, after years of this practice, the largest 4,000 enterprises continued to fund nearly 90% of total corporate income tax until 2011.⁷

Considering the above, the root of the problem becomes clear: it is essentially the Reaganomics aimed at “starving the beast” – that is, the welfare state and the social services it provides. By the 1980s, capitalism had succeeded in including most parts of the world in the value and supply chains, which led to slowed growth, especially in the wealthiest countries. Since the geographical expansion of capitalism to new

countries is limited, it was necessary to expand capitalism within the countries and societies where it already exists, by subjecting the social services previously provided by the state to market rules and allowing the commoditization and privatization of social protection. The severe bias in this proposal favoring a minority at the expense of the majority made passing it democratically an almost impossible task. Unjustified austerity is never tolerated. Reaganist policies of “starving the beast” aimed at creating a problem that can only be solved through austerity, by cutting taxes to drain the government's resources and forcing it to cut social spending. In this context, the role of taxes is reassessed to measure the extent to which they can stimulate economic growth – a secondary criterion of their role – rather than their adequacy to finance government needs. The following sections will address the main components of the tax structure in Egypt, the reality of tax collection, the efficiency of taxation, and the cost of lost opportunities over the past eight years.

Egypt's Tax Structure

Overview of Income Taxes and their Collection (2014-2022)

Law No. 91 of 2005 and its amendments regulate personal income taxes in Egypt. The law was promulgated as part of the planned tax reform policies of Finance Minister Youssef Boutros-Ghali and remains the cornerstone of the current Egyptian tax system. Amendments to the law continued after the 2011 revolution, with the number of tax brackets increasing from three to five and then to seven, and the introduction of a binary progressive system in the 2020 amendments, to reach its current form. Decisions to raise the exemption limit have also followed, especially with the sharp inflation the country suffered in the wake of the 2016 economic crisis.

⁶ The general profit tax rate in Egypt is not low enough to attract such investments, and the attempt to attract said investments is not one of the government's goals or an economically viable policy.

⁷ Fiscal Affairs Department. Revenue Mobilization in Developing Countries, p. 39.

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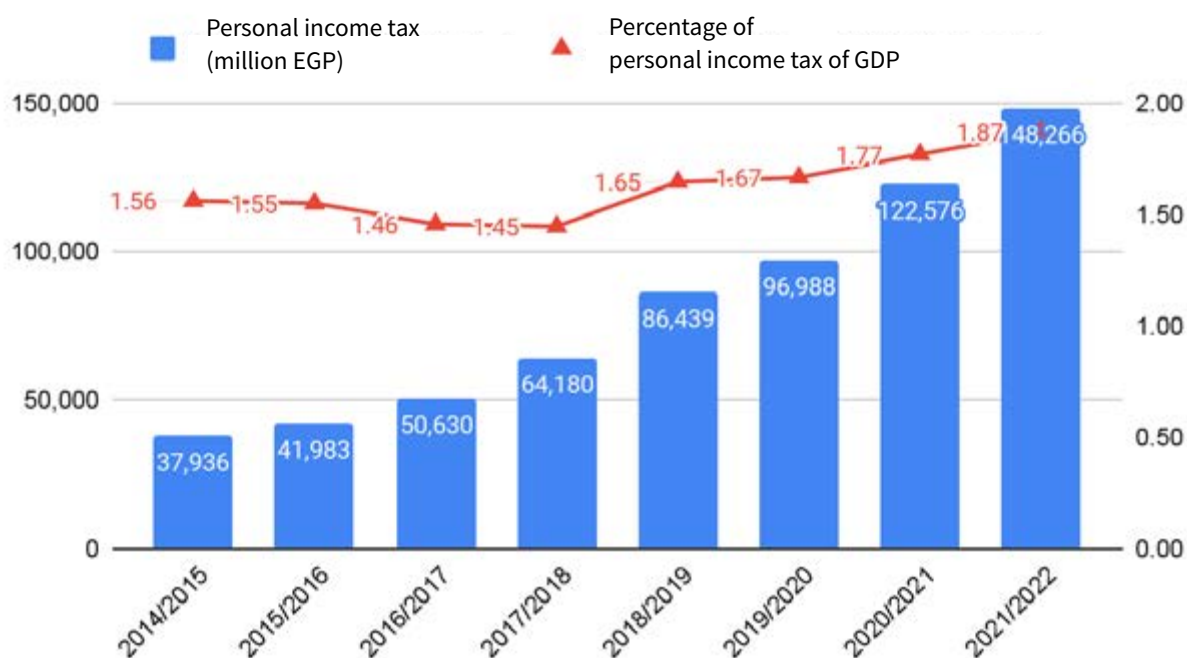
Current Tax Structure⁸

| Tax rate | Less than 600,000 | 600,000 – 700,000 | 700,000 – 800,000 | 800,000 – 900,000 | 900,000 – 1,000,000 | More than 1,000,000 |
|----------|-------------------|-------------------|-------------------|-------------------|---------------------|---------------------|
| 0% | Up to 15,000 | | | | | |
| 2.5% | 15,000 – 30,000 | Up to 30,000 | | | | |
| 10% | 30,000 – 45,000 | 30,000 – 45,000 | Up to 45,000 | | | |
| 15% | 45,000 – 60,000 | 45,000 – 60,000 | 45,000 – 60,000 | Up to 60,000 | | |
| 20% | 60,000- 200,000 | 60,000- 200,000 | 60,000- 200,000 | 60,000- 200,000 | Up to 200,000 | |
| 22.5% | 200,000 – 400,000 | 200,000 – 400,000 | 200,000 – 400,000 | 200,000 – 400,000 | 200,000 – 400,000 | Up to 400,000 |
| 25% | More than 400,000 | More than 400,000 | More than 400,000 | More than 400,000 | More than 400,000 | More than 400,000 |

In addition to the exempted tax bracket, i.e. the first 15,000 EGP, a personal exemption was adopted for workers receiving salaries valued at 4,000 EGP until 2013, when the exemption limit was raised to 7,000 EGP, then again to 9,000 EGP in 2020⁹, and to 15,000 in 2022¹⁰. Even when taking this exemption into account, the shortcomings in the tax structure are clear. The difference between the tax rates in the lower tax brackets keeps narrowing as the brackets rise,

means that its progressiveness will continue to have a limited impact in terms of distributing the tax burden more equitably and of financing revenues. The taxes are progressive only in appearance because the difference between the poor and middle brackets is much greater than that between the richer brackets. The tax rate increases by 12.5% between 15,000 and 60,000 EGP and by 5% only beyond 60,000. Taking into account that the average household expenditure in Egypt

Figure 3: Personal income tax



reaching a maximum of 25%. The low threshold for tax rates

⁸ Pursuant to Income Tax Law No. 91 of 2005 and its amendments.

⁹ Iman Iraqi. "The new income tax: Statement of correct concepts, rights and duties". Al Ahram, 20 June 2020. <https://gate.ahram.org.eg/daily/News/203420/5/767172/>

¹⁰ Ahmed Yacoub. "All you need to know about income tax amendments and investment incentives". Youm7. 2 May 2022. <https://www.youm7.com/story/2022/5/2/>

was estimated at around 62,000 EGP in the latest income and spending study, the richest half of the tax base is not exposed to this progressiveness, and its contribution to the tax base remains much less than it should be, especially since this half accounts for about 69.4% of total income.¹¹ This means that the largest and deepest part of the tax base

¹¹ Income, Expenditure and Consumption Research 2019/2020 pp. 79-80.

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remains untapped.

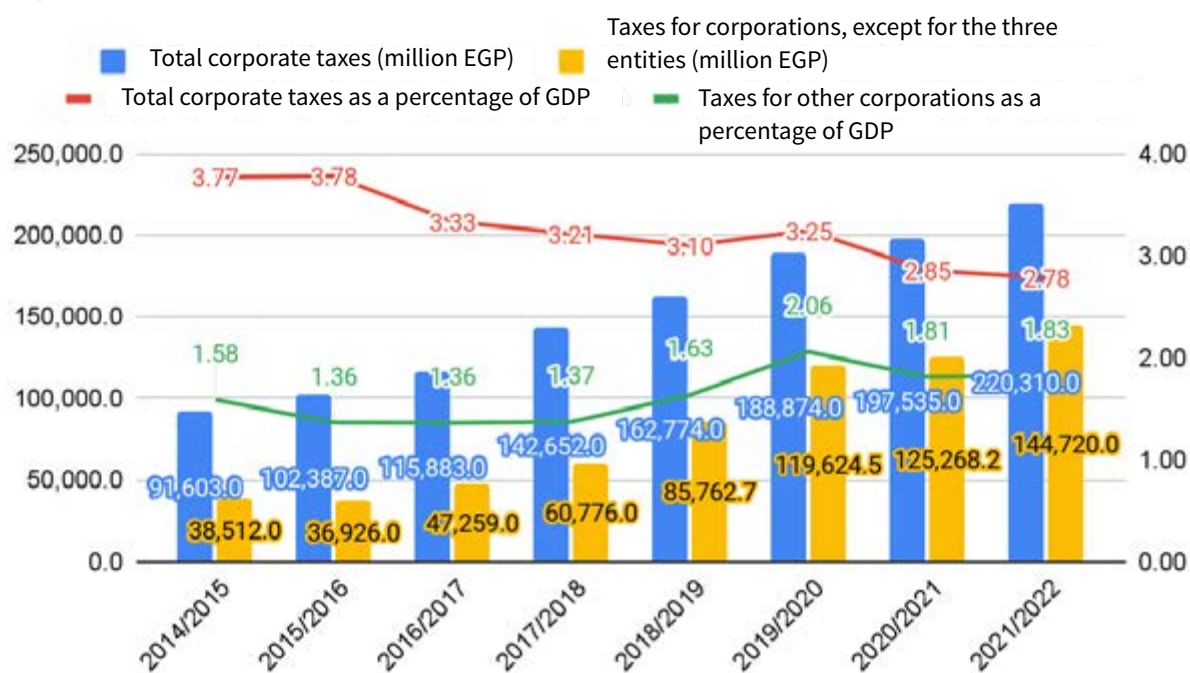
Figure 3 shows¹² that the personal income tax rate has improved slightly after the amendments strengthening the progressiveness of the tax structure. However, the percentage of domestic income is still low; about one-fifth less than the average of oil-importing countries in the Middle East, which is estimated at 2.4%. Egypt comes near the bottom of the list compared to its peers in terms of the maximum tax, tax contribution as a percentage of GDP, and the redistributive capacity of the tax policy.¹³ This means that it is still possible to increase the total tax revenue by increasing the progressiveness in the upper brackets and raising the tax limit, thus increasing the contribution of the upper brackets without affecting the lower income brackets or their competitiveness.

2022

Law No. 91 of 2005 also governs the corporate profit tax, establishing a tax at a unified rate of 20%, except for the profits of the Central Bank, the Suez Canal, and the General Petroleum Corporation (GPC), which are taxed at a rate of 40%. Also, oil and gas companies that are part of the CPC are subject to a tax rate of 40.55%. The first amendment to Law No. 51 of 2011 added a higher tax bracket (at a rate of 25%) for companies whose net profits reach 10 million EGP. The amendment took effect between July 2011 and May 2013, when Law No. 101 of 2012 came into force, unifying the tax rate again at 25%. The last significant amendment to the law was made in August 2015 with Law No. 96 of 2015 reducing the tax rate to 22.5%.

As Figure 4 shows,¹⁴ the entities exempted from the general

Figure 4: Corporate profit tax



Corporate Profit Tax 2014-

¹² Analytical statement on the draft state budget for the fiscal year 2016-2017. Ministry of Finance (Arab Republic of Egypt).

Analytical statement on the draft state budget for the fiscal year 2019-2020. Ministry of Finance (Arab Republic of Egypt).

Analytical statement on the draft state budget for the fiscal year 2022-2023. Ministry of Finance (Arab Republic of Egypt).

¹³ IMF DEPARTMENTAL PAPERS, Revenue Mobilization for a Resilient and Inclusive Recovery in the ME&CA, p. 4.

tax rate – the Central Bank, the Suez Canal, the General Petroleum Corporation and its partners – represented the majority of corporate taxes until 2017/2018, when they were included under the section of taxes on other businesses.

¹⁴ Analytical statement on the draft state budget for the fiscal year 2016-2017. Ministry of Finance (Arab Republic of Egypt).

Analytical statement on the draft state budget for the fiscal year 2019-2020. Ministry of Finance (Arab Republic of Egypt).

Analytical statement on the draft state budget for the fiscal year 2022-2023. Ministry of Finance (Arab Republic of Egypt).

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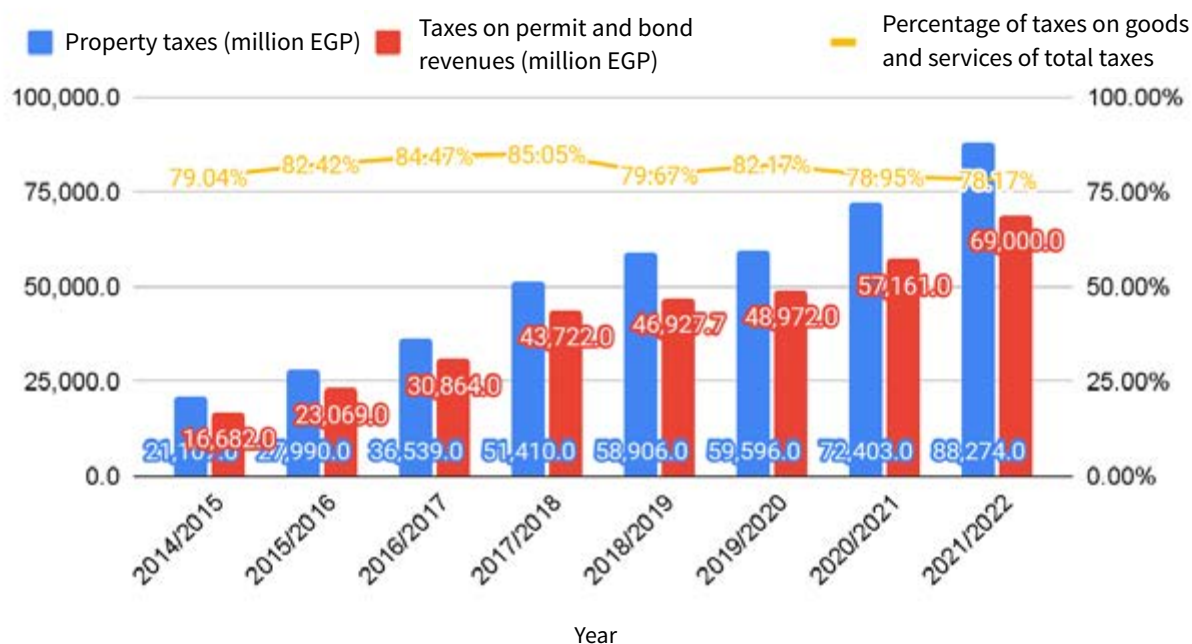
Although the contribution of the other corporations increased from around 36% to over 65.8% of the total tax revenue, it is still significantly low at 1.8% of GDP, compared to low-middle-income countries, where the tax contributes to about 2.9% of GDP on average, and even oil-importing countries in the Middle East, where the tax contributes to about 2.3% of GDP. This weak contribution may be largely due to the low unified tax rate of 22.5%, which is lower by nearly one-third than the median rate for lower-middle-income countries (33.5%).¹⁵

Property Taxes (primarily permits and bonds) 2014-2022

While property taxes¹⁶ consist of several items such as land and building taxes, fees imposed on the transfer of commercial and capital property, and various fees on cars, the overwhelming majority of them come from the proceeds of permits and bonds.

The large proportion of taxes on permit and bond revenues out of the total property taxes highlights two characteristics regarding their collection. The first is that the percentage of taxes on buildings, lands, and cars ranged between 14% and 21% of the total tax revenue, and even by adding the real estate wealth tax, the percentage increases by no more than 1%. The second characteristic is related to the nature of permits and bonds and the taxes applied to them. Permits and bonds are issued by the Ministry of Finance (MoF) and the Central Bank to cover their financial needs, which means that the government can control the number of permits and bonds offered and thus largely control the total tax revenues. In this context, taxes on permits and bonds are an effective reduction of the high lending cost. Under Law No. 91 of 2005 and its amendments, the tax is imposed at two rates: 20% on the returns of treasury bills and bonds, and 32% on the returns of bonds issued by the MoF to the Central Bank and other banks. Further, taxes on permit and bond revenues differ from taxes on capital gains, which are included under the section of income taxes, rather than property taxes.

Figure 5: Property taxes and taxes on permit and bond revenues



15 Fiscal Affairs Department. Revenue Mobilization in Developing Countries. 54.

16 Analytical statement on the draft state budget for the fiscal year 2016-2017. Ministry of Finance (Arab Republic of Egypt).

Analytical statement on the draft state budget for the fiscal year 2019-2020. Ministry of Finance (Arab Republic of Egypt).

Analytical statement on the draft state budget for the fiscal year 2022-2023. Ministry of Finance (Arab Republic of Egypt).

Value-Added Tax 2014-2022

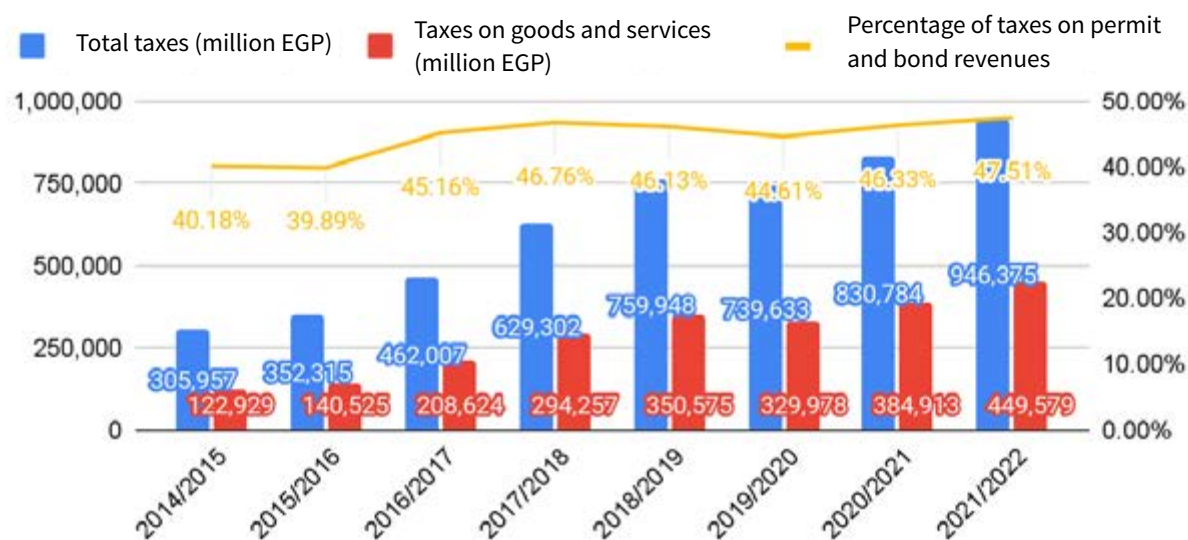
Value-added tax (VAT) was introduced in Egypt by Law No. 76 of 2016, which substituted it for taxes on sales and services as part of the reform package planned under the extended facility loan financed by the IMF and the World Bank. The new tax was imposed at a rate of 13% – an increase of 30% over the sales and services tax rate – and rose to 14% during the following fiscal year (2017/2018), leading to a significant increase in tax collection revenues.

Figure 6 shows the effect of imposing VAT in terms of increased total tax revenue in EGP,¹⁷ and as a percentage of the total taxes collected in the country on all economic activities. Revenues from VAT exceeded income tax revenues in 2016 to become the highest contributor to the total tax revenues. Most taxes on goods and services are generated from two main sources. Taxes on imported goods represent, on average, 28%-36% of tax revenue, and their revenues are strongly affected by the exchange rate of EGP against foreign currencies. A low EGP

exchange rate may discourage imports, but it increases the total tax revenues, as the price of imported goods increases, and thus the total tax collected on them.

Taxes on tobacco and cigarettes are the second largest contributor to the taxes on goods and services in Egypt, as they finance between 14% and 18% of total tax revenue, which is a major percentage, especially considering that the third largest revenues are VAT on non-scheduled domestic goods. In other words, taxes on other local goods are less important than taxes on tobacco and cigarettes, not to mention taxes on imported goods. This overreliance on tobacco taxes is accompanied by moral justifications to impose taxes. The so-called “sin taxes” imposed on goods that are unwanted or deemed harmful exploit the societal view of sin to impose extremely unfair taxes, claiming that this would contribute to the eradication of these behaviors. Although some of these practices were successful in several countries,¹⁸ they have failed so far in Egypt. Despite the imposition of a tax rate ranging between 50% and 200% on tobacco and related products, depending on their method of preparation, which is close to the recommended rate and even exceeds it, the increase in the number of smokers in Egypt is four times higher

Figure 6: Taxes on goods and services (million EGP), total taxes (million EGP), & percentage of taxes on goods and services of total taxes



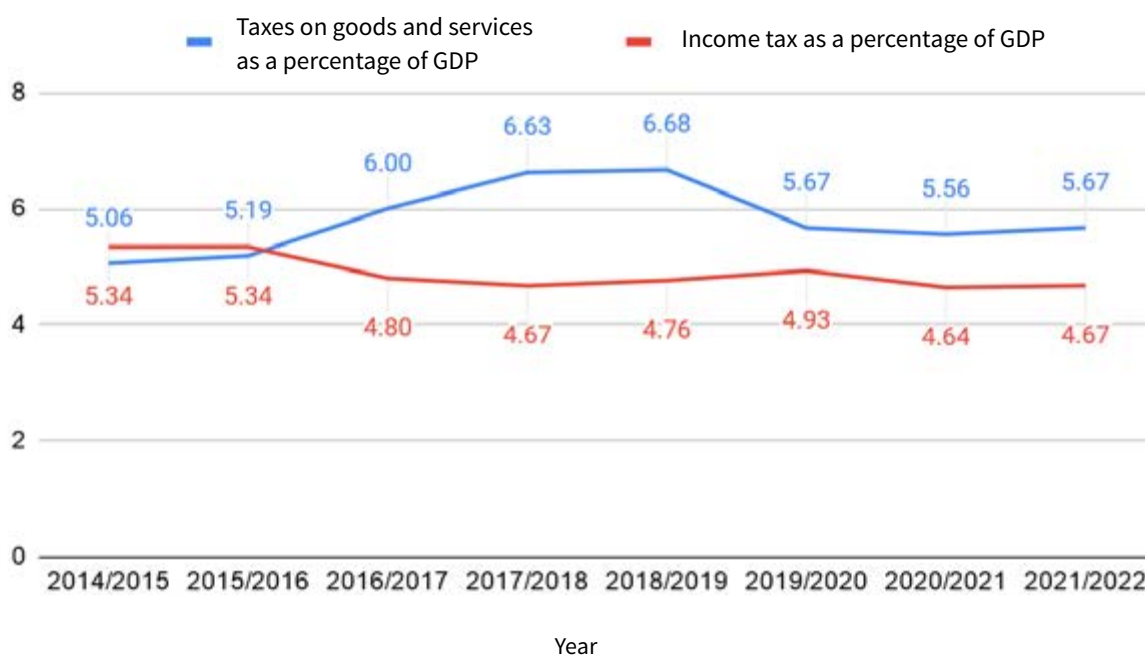
17 Analytical statement on the draft state budget for the fiscal year 2016-2017. Ministry of Finance (Arab Republic of Egypt).

Analytical statement on the draft state budget for the fiscal year 2019-2020. Ministry of Finance (Arab Republic of Egypt).

Analytical statement on the draft state budget for the fiscal year 2022-2023. Ministry of Finance (Arab Republic of Egypt).

18 World Health Organization. “Countries share examples of how tobacco tax policies create win-wins for development, health and revenues”. 12 April 2021. <https://www.who.int/news-room/feature-stories/detail/countries-share-examples-of-how-tobacco-tax-policies-create-win-wins-for-development-health-and-revenues>

Figure 7: Taxes on goods and services & Income tax as a percentage of GDP



than the population growth rate. Even when Egyptians quit smoking, about 80% of them do so strictly for health reasons.¹⁹

Sin taxes do not address the social dimension from which this perception of “sin” stems: socioeconomic pressures, vulnerable conditions, and poor social protection nets. On the contrary, they increase the burden on these citizens by exploiting their bad habits – or addiction – to mask the shortcomings of the tax structure under moral cover.

Figure 7 sheds light on the relationship between income tax and taxes on goods and services.²⁰ They are two sides of the same coin; one is fairer – income taxes – and the other is easier to collect – VAT.

19 Samar Fouda, et al. “Tobacco smoking in Egypt: a scoping literature review of its epidemiology and control measures”. Eastern Mediterranean Health Journal. Vol. 24 No. 2. 2018. <http://www.emro.who.int/emhj-volume-24-2018/volume-24-issue-2/>

20 Analytical statement on the draft state budget for the fiscal year 2016-2017. Ministry of Finance (Arab Republic of Egypt). Analytical statement on the draft state budget for the fiscal year 2019-2020. Ministry of Finance (Arab Republic of Egypt). Analytical statement on the draft state budget for the fiscal year 2022-2023. Ministry of Finance (Arab Republic of Egypt).

The Cost of Missed Opportunities

Figure 8 below shows the cost of under-collecting taxes.²¹

Between 2014 and 2022, the difference between expected taxes and taxes collected amounted to about 563.2 billion EGP, with an average of 70.4 billion EGP annually, which is 10% of the total value of taxes expected during this period. The cost of this missed opportunity was an increase in overall deficits that could have otherwise been avoided. This lost revenue could have reduced the total deficit as a percentage of allocations by one-sixth. Perhaps most importantly, even with this lost revenue, Egypt’s collection percentage is less than its peers in lower-middle-income countries, where the average percentage of tax revenue is about 17.7% of GDP, while in Egypt the average for the same period was only 13%.

21 Financial statement on the state’s draft general budget for the fiscal year 2016-2017. Ministry of Finance (Arab Republic of Egypt). Financial statement on the state’s draft general budget for the fiscal year 2019-2020. Ministry of Finance (Arab Republic of Egypt). Financial statement on the state’s draft general budget for the fiscal year 2022-2023. Ministry of Finance (Arab Republic of Egypt).

Figure 8: Actual revenue and expected revenue

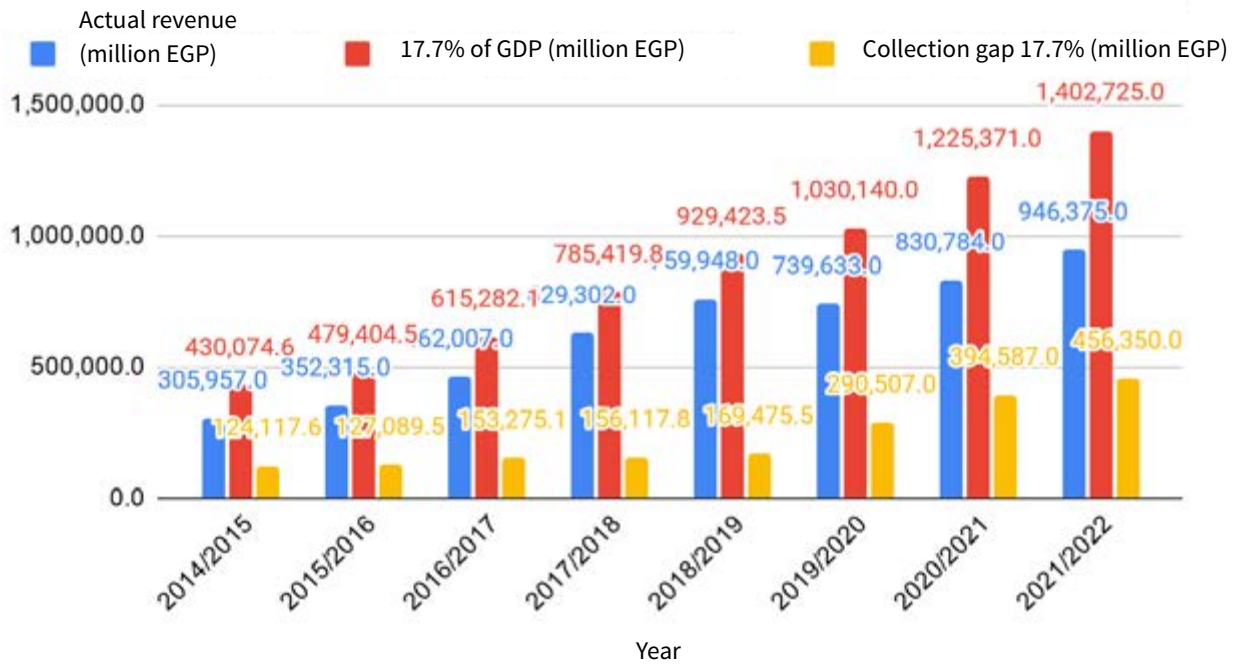
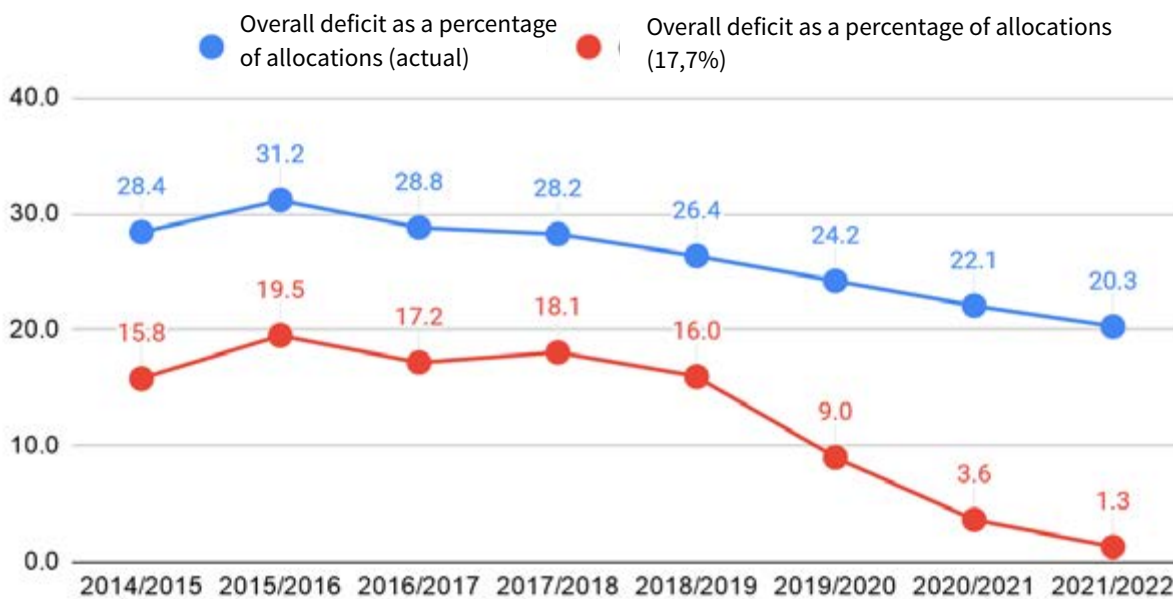


Figure 9: Overall deficit as a percentage of allocations



It should be noted that, according to the IMF’s 2011 estimates, Egypt’s tax capacity is about 30% of GDP;²² the 17.7% average is by no means the ultimate ambition, but it is enough to deter the worst consequences of a permanent deficit.

As Figure 9 shows,²³ reaching the average of peer countries would end the overall budget deficit even without taking into account the expected decrease in allocations as a result of reducing the debt service bill, which exceeded 50% of the 2022/2023 budget.

22 Fiscal Affairs Department. Revenue Mobilization in Developing Countries, p. 60.

23 The actual numbers for the year 2021/2022 were as expected in the financial statement 2022/2023, which is the latest data available at the time of writing this paper.

How Was the Deficit Entrenched?

The policies that have perpetuated the tax deficit in Egypt stem from a basic motive: the attempt to attract investments by appeasing businessmen. Law No. 91 of 2005 introduced a tax system that mainly seeks to satisfy businessmen and the wealthy class. It reduced the profit tax rate by half as well as the progressiveness of income taxes. These cuts only benefit the upper classes and introduce tax avoidance as a new concept alongside tax evasion (the difference between the two lies in the method and punishment, not in the nature of the crime). Legally, avoidance is conducting economic transactions to avoid tax, which is the main method of tax evasion for large and multinational companies. It does not result in imprisonment and is not considered a crime against honor or public trust. Tax evasion consists of concealing economic activities or corrupting records, whether by forgery or destruction, and is used by individuals as well as small and medium-sized companies. Further, it is punishable by up to five years in prison and is considered a crime against honor or public trust.²⁴ The class bias is still evident even now. In addition to maintaining a low tax threshold, successive governments have refrained from introducing a wealth tax. This bias was also manifested in the estate tax. Despite the importance and wealth of the real estate sector in Egypt, the total tax revenue from this sector is meager. The disparity between the size of real estate wealth and its poor revenue can be attributed to the tendency to reduce the value of real estate tax below the actual market value to avoid discouraging growth in the sector or harming the upper-middle and wealthy classes that use real estate as an investment and a store of value against continuous inflation.

In addition, the value of tax is decreasing with time. The maximum five-year reassessment is 30% higher than the previous assessment according to Article 3 of the executive regulations of the law,²⁵ meaning that the increase cannot exceed 5.4% annually,²⁶ which is less than the average rate of increase in real estate prices. Also, the exemption of all unexploited lands is not justified, as many people buy land as an investment or a store of value without making any use of it. Taxing these due would maximize the total tax revenue and contribute to limiting this phenomenon, which negatively affects the market and thus the safety of the macroeconomy. Furthermore, the postponed implementation of the capital

gains tax for two years to meet the demands of businessmen, stock exchange investors, and chambers of commerce cannot be overlooked. This pattern expresses the basic contradiction in this tax philosophy, as it requires sacrificing current total tax revenues in the hope of attracting future investments.

How to Repair the Deficit?

Repairing the tax deficit requires reforming the tax administration in Egypt and repairing the tax structure itself. First, repairing the tax administration requires improving the transparency of the General Tax Authority in terms of providing the necessary data to allow community participation in tax structuring, such as detailing total tax revenue by segment, gender, and geographical location. It also requires the speedy implementation of recommendations to combat the erosion of the tax base and the transfer of profits abroad to combat tax evasion, especially by large companies, and of the necessary protocols for the automatic exchange of information to reduce the losses resulting from illegal financial flows.²⁷ All of this requires investing the tax administration with the human, technical, and information resources needed to fully carry out its role.

As for the tax structure itself, attempts to broaden the tax base have not yielded the desired outcomes. For instance, the registration limit to broaden the VAT is much lower than the recommended level. For example, the IMF recommends that the registration limit should be between \$50,000-100,000 in developing countries and no less than \$50,000 so as not to compromise the viability of small enterprises.²⁸ However, the registration limit in Egypt ranged between \$33,000 in 2016 and about \$26,000 in 2022. This could negatively affect economic growth, tax compliance, and the effectiveness of the human resources required to impose it on all SMEs. The IMF recommends replacing the VAT for small businesses with a withholding tax or a fee paid to the local administration. The same methodology is adopted for personal income tax: although the poverty threshold for households is estimated at 41,136 EGP per year, only the first 30,000 are exempted in the case of an employee and 15,000 for a worker. Based on the current tax structure, this means that nearly one-third of those under the poverty line pay a 10% tax,²⁹ while

24 Law 91 of 2005, Articles 90-113.

25 Al-Waqa'i' al-Misriyya. Issue 182 continued a. Executive Regulations of the Tax Law on Built Real Estate promulgated by Law No. 196 of 2008. 06/08/2009.

26 Any increase above 5.4% means that the compound growth rate for the next five years will exceed the 30% limit set by law.

27 Sherif Sabakhawy. "Egypt slowly adopting tax changes on base erosion and profit shifting." *Multinational Group Tax News*, 16 November 2021.

<https://mnetax.com/egypt-slowly-adopting-tax-changes-on-base-erosion-and-profit-shifting-46206>

28 International Monetary Fund. *Revenue Mobilization in Developing Countries*. Fiscal Affairs Department, 8 March 2011, p. 41

29 Central Agency for Public Mobilization and Statistics (CAPMAS). *Poverty indicators according to income, expenditure, and consumption 2020*.

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the wealthiest segments of society pay only 25%. These disparities in the law, which undermine its fairness, are the main cause behind its disregard and evasion. The exemption limit must first be raised to align with the poverty line, and the taxes imposed on the upper brackets should be raised and their progression increased. The corporate income tax should also become progressive to ensure that the financing capabilities of large and giant corporations are leveraged without burdening smaller firms. Even small steps such as redesigning the progressive tax brackets would have a great impact on increasing the total revenue generated from these taxes without affecting growth or competitiveness, especially since most of the tax revenue comes from the largest 4,000 taxpayers.³⁰

In addition to all the above, some proposed taxes still await implementation, such as the capital gains tax that was postponed for several years until it was finally applied in

³⁰ International Monetary Fund. *Revenue Mobilization in Developing Countries*. p. 38

2022. The scope of the collection of this tax remains unclear, similar to the real estate taxes whose introduction was marred by confusion and inconsistency, which hindered their implementation and evaluation.

Finally, several essential elements remain absent from the tax structure, such as the wealth tax and the windfall gains tax, which are not applied in the current tax system despite being among the fairest types of taxes and having the least impact on economic growth. While there are no documented estimates of the expected value of the windfall gains tax, Oxfam has indicated that a very slight wealth tax of only 2% between 2010 and 2020 would have generated nearly \$20 billion for the state treasury, which is equivalent to the total loans allocated by the IMF to Egypt during the same period.³¹

³¹ Nabil Abdo and Shaddin Almasri “For a decade of hope not austerity in the Middle East and North Africa”. OXFAM International, 2020. <https://www.oxfam.org/en/research/decade-hope-not-austerity-middle-east-and-north-africa>

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About the Arab Reform Initiative

The Arab Reform Initiative is an independent Arab think tank working with expert partners in the Middle East and North Africa and beyond to articulate a home-grown agenda for democratic change and social justice. It conducts research and policy analysis and provides a platform for inspirational voices based on the principles of diversity, impartiality, and gender equality.



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