



NATIONAL INVESTMENT REFORM AGENDA WORKSHOP – LEBANON

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Egyptian Income Tax Reform -- A Post
Implementation Assessment

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Egyptian Income Tax Reform -- A Post Implementation Assessment

- In July 2004, a new cabinet took office with a mandate to reform aiming to increase employment through investment.
- A high priority was placed on amending the tax laws, customs law, and customs tariffs.
- In October 2004, the government announced the intention to change the tax law to reduce rates and improve tax collection.
- An income tax law closer to international practice would increase Egypt's competitiveness.



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- Simplifying a tax law meant to us as:
 - every business faces the same tax burden: no exemptions, tax holidays, or special treatments for large or foreign businesses.
 - involving tax cuts and widening of the tax base.
 - clear rules for filing and severe punishment for noncompliance.
 - effective tax collection & tax refund methods.
 - effective tax appeals process to ensure the protection of the taxpayers' rights.



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Passing the Reform

- In late August 2004, the IMF received a request to assist with drafting the new law.
- By the end of October the draft law was finalized and in November the cabinet approved the new.
- Roundtables were held with chambers of commerce, major accountants, and taxpayers in the 6 months before the law was passed.
- In June 2005, the Egyptian parliament approved Law 91/2005.



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Passing the Reform

- Late December 2005, a Ministerial Decree approved and enacted the Executive Regulations to the law.
- These regulations are a workbook that clarifies the new tax law, an essential piece of tax reform implementation.
- After that came the tax forms and the awareness campaign and training.



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Passing the Reform

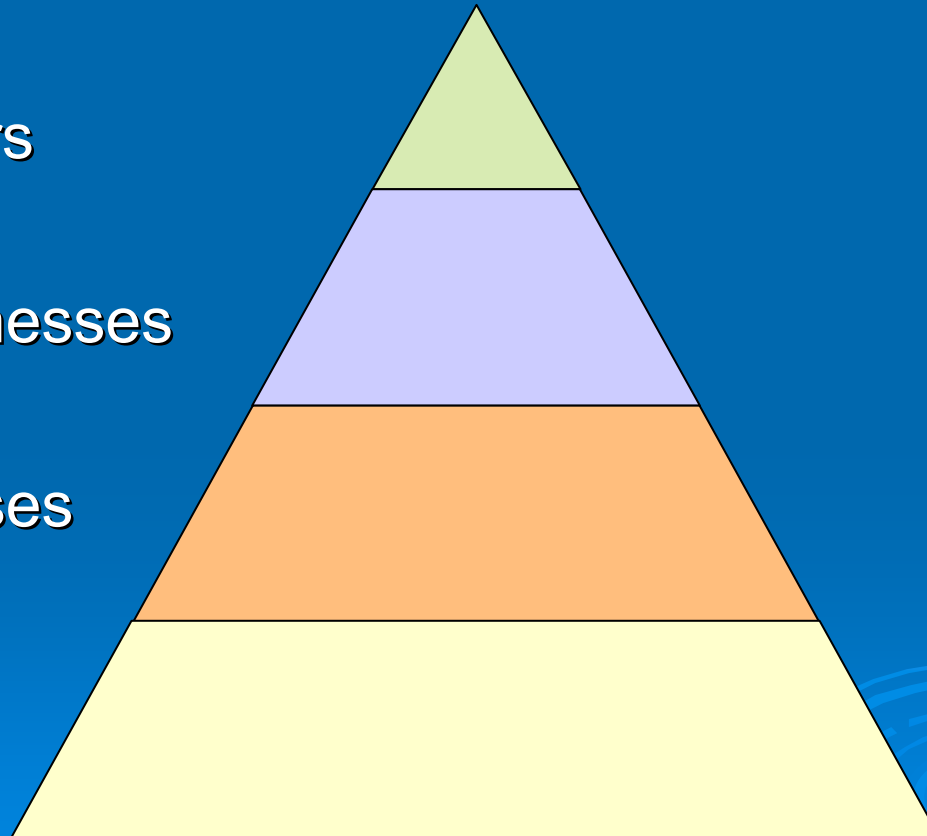
- Beside the law and regulations reform, there was a major effort for administrative reform within the tax authority.
- The first large taxpayers' office ("LTO") launched late September 2005.
- An extra step was taken in May 2006 when the sales tax department and the income tax department were merged into the Egyptian tax department.



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Taxpayers' Segmentation

- Large taxpayers
- Med-size businesses
- Small businesses
- Individuals



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Goals of Egypt's Tax Reform

- First Goal: increase tax revenues.
 - Egypt is no exception.
- Second Goal: to make the tax administration more transparent and fair.
- Third Goal: Improve economic performance.



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Post Reform Assessment

- Tax return filings increased nearly 50% and income tax revenues grew as a share of GDP, even with rate cuts.
- Over 2.5 million taxpayers submitted their tax returns, a significant increase from 1.7 million in 2005.
- Egypt's economic performance also improved.



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Post Reform Assessment

The Prize

- Adding a million taxpayers in the first year of the reform.
- Revenues increased due to the fact that the tax base must have expanded by the good design of the Tax Return.
- Tax Administration has improved.
- Increase employment through investment



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Implementation Challenges

- The following points give a snapshot of the scope of the task undertaken:
 - We responded to over 2 million phone inquiries (in 2005-06).
 - Around 400 advisory visits have been conducted.
 - 230 seminars conducted during the same period which included separate seminars for business people from a non-Arabic speaking background.
 - 9 million individual awareness products in all were distributed.
 - Registering around 1 million new taxpayers.



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Implementation Challenges

- Improving the Integrity of the Tax System
 - Recognizing that people were always going to make some genuine errors in the first year of operation of a new system
 - We have not penalized them for this. We see this as another way of promoting long-term compliance.
 - We developed a detailed Tax Return that sets out all needed information.



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Implementation Challenges

- Have more and more direct contact with taxpayers and answer their questions.
- The training of tax officers.
- The new law brought more sophisticated concepts, such as thin capitalization or transfer pricing rules, which are more difficult to implement.
- A training center for tax administration will be operating in mid-2007.



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Still A Long Way To Go

- Tax reform is an on-going process.
- With 8.2 million people in the informal sector, 37% of the workforce, there was a great opportunity for broadening the tax base and increasing revenues.
- The cash economy.
- Aggressive Tax Planning.



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Still A Long Way To Go

- Large Corporate and High Wealth.
- Integrity in Egyptian Tax Administration Operations.
- Making it Easier for Everyone.
- Important role of tax practitioners.
- E-delivery.



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Still A Long Way To Go

- The momentum of successful reform creates room for further reform.
- After we have reformed the Income Tax and the Stamp Duties, we are committed to reform:
 - The Real Estate Tax (2007)
 - The Transformation of the Sales into a full fledged VAT.



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THANK YOU

