Egyptian Tax Reform Agenda

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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 and customs tariffs.

The customs tariff restructuring reduced the number of categories from 27 to 6 and the average rate from 14.6% to 8.9% made the biggest reductions in the tariff on basic and essential goods.
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.
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.
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Post Reform Assessment

- Income tax revenues grew as a share of GDP, even with rate cuts.

- Egypt’s economic performance also improved.
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The Prize

- Adding a million taxpayers in the first year of the reform and 610 k returns in 2006.
- Tax Administration has improved.
- Increase employment through investment.
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.
Tax reform is an on-going process.
With 5.2 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 (2008).
THANK YOU