Egypt

Summary and Conclusion

- Egypt provides an example of a country that has improved revenue mobilization over the course of the last decade through income tax policy reforms that lowered tax rates and broadened the tax base and through sustained efforts to strengthen the tax administration.
- Over the 2001 to 2008 period, Egypt increased tax revenue by 1.0 percent of GDP with improvement in income tax revenue yield more than offsetting declines in revenue from international trade taxes.
- Over the period, Egypt's tax administration reform efforts primarily focused on significant improvements in supporting tax administration systems.
- Results for the 2008-09 fiscal year suggest that Egypt's revenue effort from VAT is below that of the MENA region but comparable to that of income-group comparator countries.
- Corporate Income Tax revenue effort is well above that of regional and income group comparator countries on average.
- Egypt's corporate income tax rate is about 5 percentage points below that of regional and income group comparator countries and the world average. The personal income tax rate is below that of comparator group averages.
- The VAT rate is lower than comparator group countries on average.
- VAT and CIT productivity is significantly above comparator group averages, while PIT productivity measures are generally below that of comparator country measures.

Major Developments and Features of Current Tax System

Evolution of Revenue

Over the period 2001 to 2008, Egypt increased tax revenue by 1.0 percent of GDP with improved revenue effort from income taxes more than offsetting a reduced effort from international trade taxes.

- Income tax revenue effort increased 2.2 percent of GDP over the period.
- Revenue effort from taxes on goods and services remained roughly constant over the period averaging 5.6 percent of GDP.
- Revenue effort from taxes on international trade decreased by 1.0 percent of GDP.

Egypt Government Current Revenue
(% of GDP)

	2001	2002	2003	2004	2005	2006	2007	2008
Taxes on Income & Profits	5.3%	5.2%	5.0%	5.6%	5.9%	7.8%	7.9%	7.5%
Taxes on Goods and Services	5.8%	5.5%	5.5%	5.5%	5.8%	5.6%	5.3%	5.6%
Taxes on International Trade	2.6%	1.9%	2.0%	1.9%	1.4%	1.6%	1.4%	1.6%
Property Taxes	0.0%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%	0.2%
Other Taxes	0.6%	0.6%	0.7%	0.7%	0.7%	0.6%	0.6%	0.5%
Total Tax Revenue	14.3%	13.4%	13.3%	13.8%	14.1%	15.8%	15.3%	15.3%

Summary of Reforms

Over the 2001 to 2009 period, Egypt's revenue mobilization efforts primarily focused on strengthening the tax administration and broadening the income tax base and taxpayer coverage, supported by technical Assistance from USAID. Implementation of the New Income Tax Law, that became effective on January 1, 2006, was the major tax policy reform during the period. The new law resulted in a substantial increase in the number of taxpayers and income tax revenue that rose by 1.9 percent of GDP in 2006 and has been sustained at similarly high levels .

Under the new law, the corporate income tax rate was reduced from 42% to 20%, the business tax base was broadened by eliminating most tax holidays and related incentives, the top rate on personal income was reduced from 32% to 20%, and personal income taxes were also reduced by doubling the personal exemption amount to LE 4,000, which removed large numbers of workers from the tax rolls.

The law also fundamentally revamped the legal framework for enforcing taxes, replacing a system that implicitly encouraged tax evasion and non-payment with one that imposes high penalties for non-compliance, which was coupled with improved administrative procedures. On this foundation, tax administration reform efforts focused on two main themes. First, reforms focused on improving operating efficiency supported by improved automated and systematic approaches to tax administration. Second, administration reforms focused on ensuring that tax laws are applied consistently across Egypt. Reforms included integration of income and sales taxes departments, reorganization of the tax administration along functional lines, creation of a large taxpayers unit, and introduction of units to deal with medium and small taxpayers with differentiated approaches to tax administration. Most recently, implementation of a new tax administration system was substantially completed in 2010.

Tax System Profile (2008-09)

The attached tables provide a high-level profile of Egypt's tax system and compare it with the Middle East and North Africa (MENA) region, other low-middle-income countries, and the rest of the world.

Revenue Performance

- Egypt's revenue effort from personal income tax is below that of the MENA regional average by about 1 percent of GDP and significantly below the world average.
- Corporate income tax revenue effort is well above regional, income group and world averages.
- The revenue effort from the General Sales Tax is about the same as that of the average of income group comparator country VATs and close to the world average but about 1.5 percent of GDP below the MENA average.

Tax Structure

- Egypt's corporate income tax rate, at 20 percent, is lower than regional, income group and world averages that are all roughly 25 percent.
- The maximum PIT rate in Egypt, at 20 percent, is below that of regional, income group and world averages.
- The VAT rate, at 13 percent, is below regional, income group and world averages, which are in the 26 to 30percent range.

Revenue Productivity

- Corporate income tax productivity, at 0.32 percent of GDP of revenue for each percentage point of tax rate, is well above regional, income group and world averages, at 0.14.
- Personal income tax productivity, at 0.08, is equal to the regional average but below that of income group and world averages.
- Similarly, VAT productivity, at 0.60, is significantly above regional, income group and world averages and the VAT gross compliance ratio is above that of comparator country averages.

Taxpayer Burden and Corruption Evidence

- Enterprise surveys by WB indicate that the percentage of Egyptian business taxpayers "expected to give gifts in meeting with tax officials" is 5.28 percent which is below the MENA average of 22.69 percent and the world average of 16.73.

- The WB Doing Business survey estimates that the average time required for Paying Taxes by a medium-sized company in Egypt amounted to 433 hours per year in early 2010 – somewhat higher than the average of 194 hours for other MENA region countries but lower than the 504 hours per year estimated for Egypt in 2006.

ANNEX: Egypt's Collecting Taxes Indicators

Company Income Tax	CITR	CITY	CITPROD
	Tax Rate	Revenue as % GDP	Revenue Productivity
Egypt	20.00	6.30	0.32
Middle East and North Africa	24.85	4.03	0.14
Low-Middle-Income Economies	24.68	3.42	0.14
World	25.32	3.33	0.14

Income Taxes on People	PITMINR	PITMINL	PITMAXR	PITMAXL
	Minimum Tax Rate	Minimum Income Level (Multiples of GDPpc	Maximum Tax Rate	Maximum Income Level (Multiple of GDPpc
Egypt	10.00	0.65	20.00	3.18
Middle East and North Africa	10.44	1.21	26.00	8.60
Low-Middle-Income Economies	11.35	1.28	26.76	10.36
World	11.69	0.86	29.63	9.78

Income Taxes on People	PITY	PITPROD	SSR	WEDGE
	Revenue as % GDP	Revenue Productivity	Mandatory Combined Social Contribution Rates	Combined Rate of Personal and Labors Taxation
Egypt	1.40	0.08	25.00	28.50
Middle East and North Africa	2.34	0.08	13.52	18.13
Low-Middle-Income Economies	2.48	0.11	16.87	19.98

World	3.36	0.13	16.16	20.61

Value Added Tax	VATR	VATY	VATGGR	VATPROD	THRESHOLD
	VAT rate	Revenue as % GDP	Gross Compliance Ratio	Revenue Productivity	Mandatory registration/ filing (annual turnover in USD)
Egypt	10.00	6.00	77.00	.60	9,846.00
Middle East and North Africa	13.45	7.58	75.46	.52	41,656.88
Low-Middle-Income Economies	14.90	5.80	60.40	.39	35,144.00
World	15.77	6.37	65.48	.41	38,066.55