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Phase I Evaluation Report

Administration and Policy Analysis Component,
Income Tax Administration Component
and
Local Finance Component

USAID/Cairo
Public Finance Administration Project
(263-0209)

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Executive Summary

A. Summary

The Goal of this project is to provide technical assistance to the Ministry of Finance aimed at linking the public more equitably with the public expenditure. The Purpose of the project is to improve the efficiency of tax administration and equity in the incidence, assessment and collection of taxes.

The original project paper envisioned a two stage process wherein Phase I would have focused on analysis and design of a tax reform proposal with much of the implementation scheduled for a second Phase that was contingent upon performance in the first. Further, Phase I was divided into two components. One focused on customs administration and a second on income, excise and property taxes as well as administration and training.

The customs component was undertaken under a PASA with the U.S. Customs service. KPMG Peat Marwick won a competitive bid to work on the non-customs components. Through a later amendment, some work on local public finance was added to their contract. The present evaluation covers only the non-customs components of Phase I because the customs component is being evaluated separately.

External events altered the original project activity schedule. Under its Standby program with the IMF, the Government of Egypt had committed to implement a sales tax before mid-1991. Rather than being limited to study and evaluation, therefore, much of the effort of Phase I was in fact devoted to redrafting legislation, training employees, preparing forms, and generally gearing the GOE up to implement the sales tax.

Phase I ends on April 30, 1992. Rather late in that Phase, (in November of 1991), the Mission executed an additional buy-in to the Peat Marwick contract to finalize work on local public finance that had begun under another project, Local Development II (LD II).

By all accounts, Phase I work has gone extremely well. The sales tax was implemented on schedule and the Minister of Finance is extremely praiseworthy of the technical assistance that he received. Because of the crash program on the sales tax, some work on the income tax slipped and will need to be picked up in a second phase. Nevertheless, a major contractual commitment, to propose revisions in the income tax law, was accomplished. The Government was reviewing draft legislation at the time that this evaluation was conducted, with an eye toward possibly introducing and implementing a new global income tax by calendar year 1993. Meanwhile, the contractor is laying some of the administrative and technical foundations for implementing a global income tax, if one is legislated.

The key product of Phase I was a document prepared by the Contractor entitled, "A Comprehensive Tax Reform Program for Egypt." This report covers all elements of the present Egyptian tax system and recommends tax reforms that would improve equity in the tax system while also reducing adverse tax incentives on private sector production and consumer choices. It also details administrative reforms and training and computerization needs that would be required to implement and administer the system.

That report is an excellent piece of work. The contractor has drawn upon the services of some of the world's most renowned specialists in each of the areas of taxation and public finance and has compiled their individual recommendations into a draft tax reform proposal that is complete, cohesive, internally consistent and reflective of the best current thinking on the economics and administration of tax systems.

A great deal remains to be done in Phase II to "fine tune" the sales tax and to complete the administrative reforms and training programs that will be needed to enable the GOE to sustain the system on its own. Similarly, work on the income tax is still at a relatively early stage. Much needs to be done to implement a global income tax once the GOE passes the requisite legislation.

Work on local finance was more disappointing. The contractor met contractual obligations to produce three reports analyzing central-local fiscal relations and documenting the local fiscal system in Egypt, and was not the cause for the rather meager results achieved in this area. The reasons for that seem to lie in the facts that (a) the Mission's expectations did not coincide with those of the GOE on the merits of decentralizing the revenue system and (b) the Minister of Finance was not included on the special Committee that had been appointed by the GOE as a counterpart for this activity under LD II and continued as the counterpart under the Peat Marwick buy-in. A good deal of productive work can be done in local finance, but for the near term this would lie in the area of purely fiscal, rather than political-economic reforms. Before continuing in local finance, the Mission should identify what its objectives are in this area.

Customs evaluation lies outside the scope of this report. However, since customs represent more than half of the collections under the sales tax, further technical assistance in the former should be much more closely coordinated with the sales tax TA than was the case under Phase I.

B. Outline of Recommendations (cf. p. 26)

1. **The Mission should proceed to Phase II with the Sales Tax, Income Tax, and Policy Analysis components of the project and reinforce its efforts**

to ensure that a policy analysis unit is established in the Ministry of Finance.

This should be the highest priority for Phase II. Indeed, if it can be assumed that the Contractor will continue to deliver the same quality of services in the second phase as the first, it would seem almost unconscionable to abandon this effort in midstream. To leave the GOE with a partially-implemented sales tax and only draft legislation for an income tax, or perhaps the momentum to adopt a global income tax without the capacity to implement it effectively, might in some way be worse than not having embarked on reform at all---the old system, whatever its faults, had the merit that the GOE knew how to operate it.

2. **If the Mission decides to proceed with further technical assistance in the customs component under Phase II of the project, it should seek to establish a delivery mechanism that will ensure free communication and coordination between those working on customs reform and those working on other areas of the revenue system.**

This would be a (close) second priority, since it would not leave a half-completed system behind, if abandoned. As noted later on, however, this is not to downplay the importance of additional work in customs administration and taxation. Since customs collections account for nearly half of the revenues under the present sales tax, it will be very important for the two systems to be harmonized.

3. **Resource levels permitting, the Mission should proceed with work in local public finance in Phase II, but adjust its expectations regarding what it intends to achieve, aiming at more narrowly fiscal, rather than political-economic, objectives.**

This should be the third highest priority for phase 2. There is much important work to be done in "local" public finance, and as pointed out below, the effort is likely to "pay off" in additional revenues generated even with only administrative reforms. Moreover, given the massive amounts of private sector infrastructure and capital that may materialize if the structural adjustment program is successful, the present archaic property tax system will be ill-suited to the new economic environment that emerges. However, if some element must be abandoned in Phase II, this would appear to be the most likely candidate.

I. Introduction

A. Background and Problem to be Addressed by the Project

USAID/Cairo's Public Finance Administration Project (PFAP) was authorized in November 1987, with an intended project completion date of November 1993. It was designed in response to a request from the Minister of Finance (MOF) of the Government of Egypt (GOE) for a successor activity to the Tax Administration Project (TAP) that had operated for several years under a PASA agreement with the U.S. Internal Revenue Service (IRS). In particular, the MOF sought a project that would incorporate activities in policy, administration and operations in four tax areas: (1) income tax; (2) excise taxation; (3) customs; and (4) special studies such as those of estate and property taxes. The approach proposed by USAID was first to conduct research and analysis of these functional tax areas, then to recommend appropriate policy and administrative reforms intended to improve Egypt's revenue system.

The Mission felt that the project was important because of the overwhelming role of the government in Egypt's economy. In addition to conducting fiscal and monetary policies and providing basic government services and infrastructure, the GOE directly invested in many productive sectors, owned and managed the production and distribution of goods in many sectors and imported and marketed a wide variety of industrial and consumer products. Price controls were pervasive. Consumer goods and certain productive inputs were heavily subsidized. It also tightly controlled private investment decisions and played a key role in the sectoral allocation of credit.

An archaic and inelastic tax system failed to keep pace with a growing economy and the demands placed on the system by a rapidly increasing population. The extensive government activities were therefore largely financed from nontax resources, including: implicit taxes via production and price controls; donor assistance; Suez Canal revenues; oil revenues and "profits" from government enterprises. From 1981 to 1985 non-tax financing averaged two-thirds of government expenditures. Even this failed to keep pace with spending. From 1981 to 1985, nontax revenues increased by 3% annually compared to yearly expenditure growth of 10%. This heavy reliance on non-tax resources made Egypt's economy increasingly vulnerable to external forces, such as changes in world oil prices, political events that might discourage tourism, and the availability of donor assistance. Even the one third of government expenditure that was funded by explicit taxes did not adequately reflect to citizens the cost of producing and delivering services, because the taxes were either indirect or imposed on corporations and remained effectively hidden from the ultimate taxpayer. As a result, the system placed a "wedge" between the actual resource cost of delivering government services and the explicit cost borne by Egyptian residents, thereby encouraging the illusion that heavy subsidies and high levels of government expenditure were relatively costless to them and to the economy. Not surprisingly, popular demand for continuation of these programs continued unabated.

The tax system itself, having evolved over the decades through various ad hoc amendments, was seriously deficient in its effects on economic incentives and of dubious merit on equity grounds. Different kinds of economic activity were taxed differently. Perhaps worse, the same type of income (e.g. salaries) could be taxed differently, depending on the taxpayer's status and profession. Certain sectors could more easily avoid taxation than others. The system effectively favored debt over equity financing.

The PFAP project paper emphasized the problem of incidence of explicit taxes in the system. First, 46 percent of all MOF tax collections came from taxes on company profits. The incidence of this tax was not clear, since it was intertwined with the problem of pricing policies, profits and subsidies of the public companies. Because most assessments were appealed, the actual tax paid by a company was the result of a lengthy (and to the government, costly) negotiating process. The result was a wide variation in the taxes actually paid by companies. The personal income tax, while in principle steeply progressive, was in fact rather capricious in its impact, depending upon the taxpayers source of income as well as its level. It was believed to fall most heavily on public sector wage-earning employees. Customs receipts and excise taxes, in the form of a quantity-based consumption tax, were, respectively, the second and third largest sources of tax revenue in 1985.

Administration of this system was also seriously in need of updating and reform. At the time that the project was conceived, 50,000 employees of the Ministry of Finance were employed in three separate revenue Departments, with offices distributed throughout the country. However, the growth in numbers of employees and their responsibilities had not been accompanied by commensurate changes in management structures, communications systems or management information systems. Information flows were likened to "a chain letter moving down the bureaucratic pyramid," with a significant likelihood that the chain would be broken at some stage, rendering orders useless [a problem that the contract team later learned, to its chagrin, first hand]. There was little utilization of computer technology and massive paper backlogs were commonplace. Systems of internal control and management were not well developed, causing information gaps and misunderstandings that could continue for long periods without being corrected. Senior management could easily be kept unaware of problems in a system that relied on information flowing up through the chain of command. Employee training was inadequate. The incentive pay system depended on the quantity of paper produced rather than on the accuracy of work done. In the project paper it was hypothesized that this emphasis on paper volume provided an incentive to avoid processing more difficult audit cases even though effective audits of these would potentially provide more revenue payoff.

Tax administration and law provided further impediments to effective revenue collection. A policy of 100 percent audit (combined with negative interest penalties in an inflationary environment) virtually assured that taxpayers with high liabilities would delay payment as long as possible. The paperwork load was overwhelming and the audit backlog was estimated to be at least five years. Different schedules and deductions applied to different kinds of income so that errors and under-reporting by taxpayers with income from more than one source were difficult, if not impossible, to detect.

The Mission felt that the time was ripe to address the deficiencies in the revenue system. The economy was experiencing serious difficulties. Budget deficits were an ever-present problem and MOF officials were increasingly aware of the need for operational improvements. A previous AID-supported project, the Tax Administration Project (TAP) recorded some modest achievements in reorganizing the income tax department, developing an income tax training institute, creating an Automatic Data Processing (ADP) unit in the income tax department and in testing an improved examination system. This activity, however, had been limited to the income taxes, did not address policy issues, and had been hampered by understaffing on both the U.S. and GOE sides.

B. Purpose of the Public Finance Administration Project

According to the project paper:

> "The <u>Goal</u> of the project is to assist the Ministry of Finance link [sic] the public more equitably with the GOE's expenditure program.
>
> The <u>Purpose</u> of the project is to improve the efficiency of tax administration and equity in the incidence, assessment and collection of taxes.
>
> The result of this project can be summarized as follows. Revenues to the government are expected to rise in the short term as the tax base is broadened to include individuals and firms now exempt or evading. Tax rates are expected to fall generally as the base expands and in particular for those categories of firms and individuals who face marginal tax rates which distort their behavior. Over the longer run, tax rates and revenue will reflect public awareness of expenditures and public choice in GOE programs. The strong government commitment to social equity is expected to remain so that the incidence of total tax (positive and negative taxes) is progressive to individual income.

Economic efficiency with regard to the taxation of business implies that taxes be neutral in terms of investment choices and input mix. However, the GOE's increasing desire to stimulate exports for foreign exchange will likely result in some favorable tax treatment for firms producing for export. Similarly in the context of Egypt, an important element of tax equity is tax simplification which will be achieved by this project."

C. Project Components and Anticipated Outcomes

The project was divided into two phases, commencement of the second to be conditional upon acceptable performance in the first. Phase I, in turn was divided into four components: (a) administration and policy analysis; (b) income tax administration, (c) customs administration and (d) excise tax. Component (c) is being evaluated separately, but contemporaneously with the present evaluation and will therefore largely be ignored in the present document, except as it pertains to the other components and to recommendations for
Phase II.

1. Project Paper

a. Administration and Policy Analysis

According to the project paper, "The centerpiece of the new project is the Administration and Policy Analysis Component." (p. 9) This component was to be staffed by an Administration and Policy Analysis Unit (APUA), staffed by U.S. and Egyptian tax analysts and public finance management specialists and located in the Financial Research, Statistics and Administrative Development Office of the Minister of Finance. The Unit was to report directly to the Minister of Finance.

The central objective of this unit was to provide resources for administrative and policy analysis, with a final Phase I objective of preparing "a comprehensive tax administrative policy reform agenda and a plan to address the priority issues" (p.10). The component was also to coordinate MIS activities related to tax departments and finally to conduct special studies and pilot activities on property taxes and estate tax.

The studies, applied research and pilot operational programs were aimed at generating recommendations for standardization of methods and procedures that would increase efficiency and equity in the tax system and reduce distortions induced by the revenue system on private sector decisions.

The project paper envisioned six distinct outputs (p.11):

(a) a tax reform policy package that includes a set of coordinated tax policies and draft legislation in income tax policy, customs tax policy and excise tax policy;

(b) a coordinated administrative, operational and procedural reform package for the offices of Income Tax Administration, Customs Tax Administration and Excise Tax Administration;

(c) a prioritized implementation plan for the above policy and administrative reform packages;

(d) a public awareness compaign [sic] to inform tax payers of the benefits of the reforms;

(e) the design of an integrated Management Information System including at least the Office of the Minister of Finance, the Income Tax Administration, the Customs Administration and the Excise Tax Administration; and

(f) a series of special studies on problems of property and estate taxes.

Phase II was to consist of implementation of the tax reform package, the administrative reforms, public awareness campaigns and computerization.

b. <u>Income Tax Administration</u>

AID had supported administrative technical assistance to the Income Tax Department in various degrees since 1975. While there had been some accomplishments in organization and training, implementation had been incomplete and sometimes delayed. A 1983 evaluation stated that institution-building would be long term and recommended expansion of TA and training.

Two explicit objectives were identified for this component of the PFAP project (p. 14):

(a) efficiency in the administration of the Egyptian Income Taxation Department (ITD) personal and business income tax systems; and

(b) improvement of income taxation equity.

Specific outputs for Phase I of the Income Tax Administration Component were to be recommendations resulting from pilot studies in the following areas (p.15):

(a) uniform tax enforcement policy;
(b) interrelationship to other taxes;
(c) cost and collectability of income taxes;
(d) income taxation's effect on private sector development;
(e) rationalization of income tax rates;
(f) simplification and clarification of taxation code; and
(g) unification of income taxation schedules into a global system.

Phase two was to result in, *inter alia*: improved and expanded training; improved and standardized methods and procedures; and a management information system.

c. Excise Taxes

At the time that the project paper was written, excise taxes were levied on 155 items. The revenue collections from a number of these were negligible. Growth and changes in excise taxation, inadequate enforcement, and poor administration produced tensions between taxpayers and the Department. There was no system of taxpayer identification numbers, and interchange of information between departments was poor. Administration and monitoring placed increasing burdens on both the Department on taxpayers. The stated objective under this component of the project was to, "improve the efficiency of the tax administration and equity in the incidence, assessment and collection of excise taxes." (p. 22).

Anticipated outputs for Phase I of this component included:

(a) development of standardized administrative policies and operating procedures;
(b) improvements in administrative controls;
(c) improvements in systems for information flows; and
(d) simplification and clarification of excise laws and procedures.

Other issues were expected to emerge from analyses and pilot studies. While not foreseen as the project paper was being developed, as external events unfolded this component of the project turned out to be the centerpiece of Phase I activities, and many of the outcomes expected from Phase II were advanced to the earlier stage. Phase II was expected to produce: a management and operations system design; an automated data processing (ADP) unit; and an excise taxation training center.

d. Local Government Finance

The project did not originally include local government finance. The Mission had been working in that area for several years under its broad Local Development Project (LD II), managed by the Mission's Office of Local Administration and Development. By late 1990, the Mission determined that LD II project objectives of decentralizing revenue collection and resource mobilization had not been met, given GOE's lack of interest in that objective at the time. In January 1991, local finance activities were shifted to the PFAP contract through a separate buy-in, though USAID responsibility remained with the LAD office. In November of that year, project management of the public finance component of LD II was shifted to the Economic Analysis Section and the Public Finance Administration contract was amended to add local finance to the contractor's scope of work.

Under LD II, local finance had been viewed as key to maintaining local infrastructure, in the face of uncertain and often insufficient central financial support for local levels of government. Yet, some local governments were unable to use even the funds that were available to them. LD II was intended to improve governorate, district and village O&M capacity and to raise additional revenues locally. The latter was deemed important since the Mission felt that it was unlikely that central transfers would be sufficient to cover the growing O&M needs of an enlarged and ageing infrastructure.

Despite the limited progress in fiscal decentralization under LD II, the Mission appears to have retained some optimism about the future feasibility of this effort, as manifested in the contract amendment statement that, ". . . the GOE has made a policy commitment to take actions that will stimulate increased local responsibility; *the implication is a concurrent increase in administrative decentralization*" and that "[t]he results of the local fiscal management study *will contribute to the GOE policy effort to catalyze local resource mobilization.*" (Italics added).

Toward that end, in the limited time then remaining under Phase I, Peat Marwick was asked to undertake a local government fiscal management study. The fundamental purpose of the study was "to secure advice on the processes and mechanisms required for increased local government basic service provision and financing -- i.e., expenditures and revenues."

In particular, the contractor was to examine:

(a) the conceptual relationship between national and local government fiscal operations;
(b) criteria for determining which services local governments should provide;
(c) funding requirements implied by the answers to (a) and (b) and the appropriate mix of revenue sharing, fees and local taxes;
(d) how existing policies, laws, regulations and management structures impede or facilitate the adoption of local systems of service provision and what changes are required to reduce these impediments.

2. RFP and Contract

Reportedly because of the lengthy process of RFP solicitation and review, there was a significant delay in starting the project. The contractor fielded a team in November 1989 rather than in mid-1988, as originally anticipated. During this time, there appear to have been some changes and clarifications in Mission thinking about the expectations for the project. Evaluation of the results cannot therefore rely exclusively on the project paper as a guide to expected results. The work requirements as they appear in the final contract (since twice amended), which was won in a competitive bid by **KPMG** Peat Marwick (PM) and implemented by its Policy Economics Group include:

a. <u>Administration and Policy Analysis</u>

The contract calls for the establishment of an Administration and Policy Analysis Unit (APUA) in the Ministry of Finance. This unit is staffed by PM employees and subcontractors. Duties include:

1. Design and assistance in implementing a comprehensive series of tax policy and administration reform scenarios and prioritize plans of action. The Contractor is then to submit action plans and recommendations for a follow-up implementation schedule and to assist the GOE in implementing the comprehensive policy and revising the system as necessary. By September 1991, the complete set of policy reform scenarios was to be developed and, if feasible, modelled and by November 1991 the final selected scenario was to be presented to AID and the GOE for approval. The final scenarios were to include, as a minimum, draft legislation in income tax and excise tax policy along with simulation modelling of administrative, operational and procedural reforms, with an implementation plan for each scenario.

2. Recommendations, design and public affairs consultants to assist the GOE in implementing a taxpayer awareness campaign.

3. Assist the GOE in design and implementation of an MIS system at least in the three tax departments (Income, Excise and Customs).

4. To conduct and complete special studies on the property and inheritance tax systems.

5. To gather and analyze base line and implementation data for the entire project.

b. Income Tax Administration Component:

1. Continue the work begun under TAP in reorganizing the Income Tax Department (ITD), development of an income tax training capacity, computerization of tax functions, and streamlining of collection and examination.

2. Recommend new policy initiatives designed to achieve greater efficiency and equity in the procedures and administration of the income tax system.

3. Prepare a complete set of recommendations based on field tested procedures that shall result in the creation of a taxpayer identification and tracking system.

4. Recommend and field test methods to improve examinations and collection systems and demonstrate how the new systems will improve operations based on field test comparisons of proposed changes in the current system.

5. Design, test and recommend an expanded Automatic Data Processing plan for all of the Income Tax Department functions.

6. Design and propose an expanded personnel development and training plan for ITD employees.

7. Design and propose a reorganization plan for the Income Tax Department.

c. Excise Tax Administration Component:

1. Study, recommend and assist in implementation of changes in the administrative system that shall result in improvements in overall efficiency and equity;

2. Assist in improving assessment and tax collection in the Excise Tax Department.

3. Recommend a taxpayer identification and tracking system based on field-tested procedures.

4. Recommend field-tested procedures for reducing the number of steps in assessing and collecting taxes;

5. Recommend a set of field tested procedures for improving information retrieval, recording and storage;

6. Recommend a set of field tested procedures for expanded technical and management training.

d. Sales Tax Administration Component:

The amended work program recognizes that the Contractor was drawn, early in the project, into a GOE crash program to implement a sales tax---a task that was not foreseen when the project paper and the original contract were written. In the Sales tax area, the Contractor's work requirements included:

1. Empirical analysis of the revenue and economic effects of the GOE's sales tax program.

2. Critical review of the implementing legislation, decrees, and explanatory notes that provide the legal foundation for the new tax.

3. Support in the development of a comprehensive training program for staff of the new Sales Tax Department.

4. Support in developing all the materials required for registering businesses who will collect the new sales tax and in developing the plan for actually registering these businesses.

5. Support in designing and preparing "camera ready" copy of all required forms for the new sales tax from which the GOE can produce the required number of copies.

6. Assistance in designing the organization structure of the new tax and in developing the procedures under which the new tax will be collected.

In addition to supporting the Sales tax in the above manner, the Contractor was required to take lead responsibility for developing a computerized sales tax processing system:

1. Using Project funds to procure 10 micro computer systems to be distributed to the central offices of the Sales Tax Department and to the nine regional offices. The GOE was expected to provide one NCR Tower computer.

2. Developing software for the new sales tax processing system to support registering, enforcement and processing of returns.

3. Provision of one resident advisor and one local advisor to support the development of the computerized sales tax processing system. Other experts were also to be provided as needed to implement the tax.

4. Arranging for in-country computer training for selected Sales Department staff, including language training, computer training and administrative training.

A list of Specific Tasks is reproduced as Attachment A of this evaluation report.

II. Operating Constraints and Accomplishments Under Phase I.

A. Policy Analysis Component

The work performed under this component was uniformly excellent. Long-term and short-term consultants of the highest calibre were brought in to analyze the economic and administrative aspects of Egypt's revenue system. Specific tasks under this component included, *inter alia*: a tax reform policy package, including draft legislation; coordinated operational and procedural reform packages for the respective taxes; implementation plans for the aforementioned; and special studies of problems with property and inheritance taxes and ways of solving them.

At least twenty-seven special background reports were developed, in addition to a number of short analytical papers, each justifying the recommendations that were made in the final report. The final product of this effort, entitled "A Comprehensive Tax Reform Program for Egypt," runs 252 pages and covers the entire range of issues specified in the contract, including: income tax, indirect taxes, property taxes, inheritance taxes, administrative reform requirements and training needs. The range of recommendations can be seen by examining the Table of Contents and Executive Summary for the Peat Marwick report. They are included as Attachment D to the present document. In addition to the report, the advisory team was instrumental in helping the GOE finalize the Sales Tax Law and in proposing a Global Income Tax, a draft law for which is reportedly currently under consideration by the government.

The Peat Marwick report is an outstanding piece of work, meeting and in many ways exceeding, the scope and intent of the original project paper. It reflects the very best in current thinking on the subjects of public finance economics and administration, and analyzes both the efficiency and equity aspects of the proposed reforms.

The authors of the reform package specify five objectives to be accomplished via the proposed reforms: (1) increasing the revenue productivity of the Egyptian tax system; (2) improving the fairness of the tax system; (3) eliminating many tax-induced distortions in the economy; (4) simplification of the tax system; and (5) modernizing the administration of the system.

The center of the reform package is a proposal for a Global Income Tax to replace a number of schedular taxes that existed at the beginning of the program. The broadening of the tax base that would result from the reform would permit a substantial reduction in average tax rates, which would in turn help to reduce disincentives to invest and to engage in other productive activities while at the same time improving administration to increase compliance and to substantially reduce the de facto inequities that have entered the present system through various forms of tax avoidance. The marginal tax rate on individuals would be reduced from 80 percent to 30 percent. Large numbers of low income taxpayers would be dropped from the rolls and the top rate for the corporate and personal income taxes would be equalized. Administrative reforms would include computerization, changing penalties, gaining control of the backlog of disputed tax cases, and reforming the organization of the Income Tax Department.

The second major component of the reform proposal is the substitution of a VAT-type sales tax to replace the quantity-based consumption tax that previously existed. The combined income and sales taxes are designed to offset the revenue losses that will occur from elimination of a large number of archaic stamp duties and similar taxes. The program also recommends reform of the property and inheritance taxes to improve administration, and to create structures that could potentially yield significantly more revenue in the future, if the GOE decides to further modify its policies.

The report estimates that the revenue effect of the reform package will be a net increase over 1992 levels of LE 3.3 billion when fully phased in, and LE 2.6 billion by fiscal year 1994-95.

As directed by the contract, the report specifically and adequately (within the constraints of a priori analysis) addressed the issues of efficiency and equity of the proposed reforms. The wording of the original project paper seemed to imply that an ex poste evaluation of these two dimensions would be possible, although it is not clear why the authors of the PP felt that it would be possible to measure the impact of a system that would not exist in its full form until after the project was completed. At any rate, the contractors (correctly) did the next best thing under the circumstances, which was to model the several subcomponents of the tax system and to simulate the results of various proposed changes.

The project paper also did not include a definition of tax "equity," even though it specifies in numerous places that the consultants are to produce a system that will increase the "equity" of the system. This is an unfortunate omission from the PP, since this has been one of the most continuously debated issues in the philosophy of taxation. Indeed, there are individuals who might argue that the steeply progressive marginal rates of the extant system were *ipso facto*, "fair" or "equitable," and did not warrant change. However, it seems reasonable to infer from the overall context of the PP, and various statements made in it, that by improved "equity," the authors intended to mean: (a) that income from different sources (wages, interest, etc.) be treated equally; (b) that administration of the system be such that tax evasion did not create *de facto* inequity among individuals; (c) that individuals with the same income and circumstances (e.g. two equal salary-earners in different occupations) be taxed equally; and (d) some reasonable degree of progressivity remain in the system.

The proposed reforms, if fully enacted and properly administered, will represent improvements in both efficiency and equity so defined and is virtually certain to improve the efficiency of administration and tax collection.

Egypt's pre-reform tax system relied heavily (the Peat Marwick report estimates up to one half of central government revenues) on taxation of the external sector. This makes the system very vulnerable to external shocks and reduces the elasticity of tax collection vis a vis economic growth. Tax evasion is widespread and inflation seriously erodes uncollected liabilities, which can take years to collect. Taxes on external trade also pose the threat of distortion on foreign trade incentives. Increased reliance on corporate individual income taxes should reduce such distortions. Revenue shortfalls have been made up by adding more and more taxes. As the team report notes, during the 1980's, "Egypt in effect collected less and less revenue from a more and more complicated, costly, and inefficient tax structure."

The new system would be considerably more neutral in its effects on economic incentives than the present one. For example, under current tax law, different rates apply to different categories of income, and some overlap. The current law taxes corporate income and then taxes dividends received by individuals yet interest earned from bank deposits and government bonds is tax exempt. In addition to other incentives this introduces a bias in favor of public over private sector borrowing and of debt over equity financing. In total, this acts as an impediment to further development of Egypt's financial markets. Since interest income tends to accrue disproportionately to higher income groups, failure to adequately tax interest also tends to reduce the progressivity of the income tax. Individual income is currently collected under one or more of four different schedular taxes, each with different rate structures. Several categories of income earner are given special exemptions (e.g., professionals are allowed to take depreciation allowances). It is estimated that only one third of taxpayers file a tax return and that perhaps ninety percent fail to pay the tax due. The backlog of uncollected taxes is staggering. The penalty structure in an inflationary environment effectively encourages noncompliance. The result is a system that taxes income capriciously depending on its level and source and that introduces unnecessary and probably dysfunctional incentives into the economic system.

The proposed tax reforms would remove many of these undesirable features by making the overall tax system more transparent and simpler to administer and control. The sales tax replaces a cumbersome system of quantity-based excise taxes, leaving only a few specific excise (and "sin") taxes. The reform will ease the burden of compliance on taxpayers and has the merit of taxing consumption rather than saving, a virtue of VAT-type taxes that is believed by many to be more consistent with long-term growth needs. Coordination of the corporate and individual income taxes will reduce the incentive to incorporate for purely tax reasons rather than for reasons of economic efficiency. The global income tax will being interest income on to the tax roles, and would treat dividends and interest income similarly, thereby eliminating significant biases in the financial system. Lower marginal rates are expected to reduce present disincentives to save, invest and work.

Based on the tenets of modern tax theory and the experiences of other countries, the reforms proposed by the contractor would mark a significant improvement in the economic efficiency of Egypt's revenue system. Moreover, computerization and training will vastly increase the efficiency of tax collection.

It is not possible to monitor the actual <u>equity</u> of the tax system until several years after it has been implemented and a statistically significant number of taxpayer files has been accumulated. However, the contractor has made an important and legitimate effort through tax modelling to respond to the Mission's requirement that the equity effects of the tax reform be addressed. The results indicate that <u>taxes on individuals'</u> incomes will remain progressive. While the sharply progressive nominal rate structures of the present system will be reduced to two---15 percent and 30 percent, a generous threshold will remove many of the lowest income groups from the income tax rolls altogether. Moreover, as it applies to wage income, the <u>reductions</u> in tax liabilities in the new system are progressive, i.e. middle and lower income groups would have their liabilities reduced by equivalents of 20 to 100 percent, while upper income groups would see their taxes decrease by only 22 percent. Simulations indicate that even a flat tax rate of 15%, with a generous low income exemption retains a significant degree of progressivity in the average rate---doubling from 7.5% for incomes below LE10,000 to 13.5% for incomes over LE50,000. The proposal to add a 30% rate for incomes over LE 10,000 will further accentuate the progressivity of the individual income tax compared to that estimate. Data limitations prevented the contractor from estimating the effect of the reform on <u>commercial and industrial</u> profits and <u>professional</u> profits. However, it was estimated that the global income tax with broadened base would reduce tax liabilities for unincorporated businesses by about 42 percent, while about 250,000 taxpayers would be removed from the rolls because of the family burden exemption. Professionals would see their liabilities fall by less than some other categories because their special depreciation allowance would be eliminated. Data limitations also prevented estimations of the distributional effects of the <u>taxation of interest</u>. It is widely assumed, however, that higher income groups receive more interest income than lower groups and to that extent this element is likely to be progressive. Egypt's current system of excise taxation is mildly progressive relative to *consumption* (rather than income). Because certain necessities are nontaxable, the new sales tax retained this progressivity. Data do not permit assessment of the incidence by income class, but the contractor's experts assume that it will be roughly proportional. The report argues that, although the poor spend a larger portion of their incomes than the rich (sharply reducing the progressivity of the tax), a substantial amount of the present tax may fall on the owners of capital, thus making it fall proportionally on higher income taxpayers.

In the contractor's overall judgement, the long-term effects of indirect tax reform will be progressive relative to consumption and *proportional* to income. In summary, judging the reform proposal in equity grounds, a progressive income tax combined with a proportional sales tax should produce an overall tax <u>on individuals</u> that is still significantly progressive with regard to income, even though putative marginal rates will be reduced. The effect <u>on business</u> taxes is uneven. Sectors enjoying tax holidays at present will generally see their taxes increase as rates are lowered and the base is broadened. Similarly the impact on size of firms depends on asset size and on the industry in which they operate. Some firms stand to pay substantially more in taxes as special privileges under the present law are eliminated---notably those currently receiving tax holidays. In general, many public sector corporations would see their tax liabilities increase, while <u>profitable</u> private sector corporations would see their tax bills decrease on the order of 20% to 25% for most asset size classes.

Finally, overall the elasticity the revenue system is expected to increase significantly as a result of these reforms.

B. Excise Tax Component

The excise tax component of the project proved to the most ambitious and successful effort under Phase I. The Minister of Finance estimates that sales tax revenues for the first nine months of the program were at least LE 2 billion, and perhaps as much as LE 3 billion. As noted above, the original project design did not anticipate significant amounts of implementation activity until Phase II. The sales tax was to have been implemented 9 months after the income tax reforms. However, the GOE was committed under its stand-by arrangement with the IMF to implement a sales tax before the Summer of 1991. The Peat Marwick team was approached to assist in the effort and its contract with AID was appropriately modified.

While a sales tax had been contemplated since 1978 and draft legislation had previously been prepared, the GOE had seriously underestimated the level of effort that remained in order to implement such a task. The sales tax/VAT specialist arrived in May 1990, and immediately set forth a 6 month implementation plan with a target date of January 1991 (see Attachment E).

The work began with 10 different technical assistance teams to review the legislation, assist in redrafting and advise on administrative structures. The initial legislation called for the tax first to be implemented on manufactures and imports, which typically account for 70 percent of the VAT base. Twenty-five thousand businesses had to be registered and a master tax file prepared. The whole concept of a value-based, rather than a unit-base, tax was alien to the staff and administrators, so that an entire reorientation needed to take place. There was no computer capacity in the department. People needed to be trained. Forms needed to be developed and distributed. Directives to local officials needed to be prepared and distributed.

During Phase I the contractor accomplished all of the tasks required to implement a sales tax and the GOE announced the new tax in May 1991. Tasks completed include: review and final preparation of the draft legislation; recommendations to assist in the implementation of assessment and collection of excise taxes; development of computer software, including arabic software, required to increase the capability to record, store and retrieve information; purchase and installation of required computer hardware; training GOE staff in the use of the above as well as in administration; training trainers and recommended steps for expanded management and technical training; development of "new look" forms and desktop publishing capacity to continue their production; development of the master taxpayer file and identification numbers; development of a sales tax model and utilizing it to analyze the effects of variations in different elements of the tax; and development and translation of a general guide for registered businesses and tax collectors. Per the contract, Peat Marwick offered the Minister resources to publicize the new sales tax, but the Minister chose not to use those resources, preferring instead to utilize personal appearances by officials engaged in implementing the tax. As noted elsewhere in this report, the Minister and sales tax officials were extremely pleased with the quality of assistance that they received from this contract.

The main constraints to implementation of the first Phase seem to have been an initial underestimate by the government (and to some extent by USAID) of the size of the task that lay before them and therefore some early misunderstanding by the GOE of what was being proposed. This reflected, in part, a second constraint, which is the need to fully reorient thinking within the department away from a unit-based tax and toward a value-based tax. This might have been further compounded by the need for GOE officials to adjust their thinking to understand that PFAP was not merely a repeat of the TAP project, which had a much narrower focus and more limited requirements for GOE officials' time and access. While initial access to key officials was good, it reportedly tapered off after a time. This presented some problems in the early stages of the reform, because the contractor was unable to get vital information or to have decisions made on a timely basis. The contractor's monthly reports during this period virtually cry out for data and critical information. The problem was ultimately solved when the Minister authorized a person to act as a day to day counterpart between the GOE and the technical assistance team. All evidence suggests that this caused a quantum leap in the ease with which the Peat Marwick team was able to work, and the process appears to have gone very smoothly after that. Another problem appeared when it was discovered that detailed implementation instructions prepared by the contractor had not been disseminated to the field.

Constraints that may continue to operate in phase two include: information dissemination; carryover of the consumption tax mentality; and need for better coordination with work in the customs area.

The original expectation that a research unit would be established in the Ministry during Phase I was not realized. **This will need to be a key activity in Phase II**, both for the sales tax and the income tax so that GOE staff can become proficient in revenue forecasting and in using the software developed for this project to so "what if" scenarios to analyze future modifications of tax rates and other elements of the tax system. The technology transfer will not really be complete until this unit is operational and intellectually self-sufficient.

A great deal of work remains in implementation and follow-up, especially if, as is expected, the Ministry moves to expand the sales tax to the wholesale or retail level. There are important modifications of the tax to be made, including removal of some of the residual "cascading" elements.

C. Income Tax Component

The key accomplishment under this component of the project (intertwined with the policy analysis component) was the production of the "Comprehensive Tax Reform Program" document, outlined above. Partly because resources and attention were diverted in the rush to implement the sales tax, some of the income tax work originally foreseen in the project paper for Phase I was slowed.

By the end of Phase I, the foundation for the income tax will have been established. There are essentially three required steps in the income tax reform: (1) identifying the need for reform, (2) implementation of the reforms and (3) administration of the new, refined system. Step (1) had already been completed for the sales tax. Such was not the case for the income tax.

Measured against this schedule, by the end of the first phase the contractor will have largely completed the first step in income tax reform. Some initial steps in computerization (and in computerization awareness) will have been accomplished. It is hoped that something will have been done to establish a taxpayer master file (use of an existing GOE file could save months of development work later on). The contractor also hopes to make some progress with the GOE on a means of dealing with the backlog of old claims, which is enormous in both monetary and numerical terms, and which represents a major impediment to progress under a new system.

Using the seven tasks listed in the second amendment of the contract (see p. 12, above) as a guide to "measurable indicators," the following accomplishments have been tabulated for Phase I: (a) TAP initiatives in reorganizing the IDP, developing training and computerization of tax functions were continued; (b) new initiatives to achieve greater efficiency and equity in administration have been developed, but "field testing" has largely proved to be infeasible; (c) a complete set of recommendations has been prepared for the creation of a taxpayer identification and tracking system; (d) through 4 pilot offices that should be operating by April 30, there will be, in effect, "field testing" of Automated Data Processing plans for Income Tax Department (ITD) functions; (e) a training plan for the ITD has been designed; (f) a <u>draft</u> of proposed policy and administrative reforms has been prepared, based on the contractor's proposals for income tax reform although final plans for the ultimate administrative shape of the ITD must depend on the nature of the law that the GOE actually adopts.

The only one of the seven designated areas in which the contractor appears unable to have fully completed the projected tasks was in "field testing" of methods to improve examination and collection systems, although the methods themselves are well in train.

In retrospect, it was probably unrealistic for the Mission to expect much "field testing" of various elements of the income tax program, since they often proved to be unfeasible in light of the fact that the legislation to be implemented will not be passed during Phase II of the project.

The main areas of work in Phase II, if it is undertaken, would include: a review of the proposed income tax legislation and the economics of it; development of forms, registration procedures and so forth; development and dissemination of procedural manuals; streamlining the withholding system; developing public relations material; creating administrative changes to improve withholding compliance and enforcement; development of a high level of audit capacity; computerization of the system, beginning with 5 pilots and then moving progressively to more and more districts.

D. Local Finance Component

There is general agreement that work in local finance has been, in varying degrees, a disappointment to nearly everyone concerned. This should not be attributed to the PFAP contractor. Indeed, modest expectations were already partly reflected in the fact that, following the limited success in the public finance element of LD II, the original grant agreement with the PFAP contractor included only the requirement to "conduct and complete special studies on the property and inheritance tax systems," as the probable achievable objective for this component.

When responsibility for local finance was switched by LAD to the Peat Marwick contract, a good deal of history came with it, including the expectation that significant progress was still possible in fiscal decentralization. Despite the limited progress under LD II, this seems not to have been an unreasonable expectation, in light of the fact as noted in Section C.1.d, above, that the GOE was at that time still giving some positive expressions of interest about work in this area. Still, as the specific work tasks listed in the earlier section suggest, Mission expectations had been tempered somewhat and activities were to focus largely on feasibility studies and analysis of policies and institutions.

This was accomplished. The contractor produced three studies---two in August 1991 and one in January 1992 that, *in toto*, answer the questions posed on page 16 of the first contract amendment. Professor Roy Bahl, wrote "Fiscal Decentralization in Egypt," that presented a general paradigm of central-local fiscal relations as seen in other countries, and the general arguments usually advanced in favor of fiscal decentralization. These arguments are then placed in the Egyptian context. The paper presents some alternative modes for approaching fiscal decentralization, and lists "next steps" that would be required to pursue fiscal decentralization in Egypt. Two other papers, "Intergovernmental Fiscal Relations in Egypt," by Larry Schroeder and "The Current Structure and Financing of Local Administration in Egypt," by James Wozny document more completely than any previous work, and for some aspects for the first time, the workings of the local public finance system in Egypt and thereby met the requirements of the contract as it related to documenting the existing system.

The contract as amended once, however, still proved to be overoptimistic in what could be achieved in fiscal decentralization. It called for a "formula" for sharing revenues between the central and lower levels of government and for three [sub] Phases (or Stages) for ". . . development, testing, and implementation of a decentralized local government fiscal management system." subphase II was to include implementation and analysis of a "pilot activity" while subphase III was to result in "GOE implementation of [a] local government fiscal management system nationwide." The amended contract was flawed insofar as it did not specify a timeframe for accomplishment of these three subphases. One must infer that all three were to be completed by the end of Phase I of the overall project, since the contract only covered that Phase.

In retrospect, the Mission's expectations for local finance reform were utterly unrealistic in light of the fact that the GOE had not committed itself to any form of fiscal decentralization and that the Minister of Finance was *de facto* excluded from the activity. It appears that the PFAP contractor did the best that reasonably could be expected under the circumstances. The Mission again adjusted its expectations downward and amended the contract for a second time, limiting the tasks to "assess[ing] the environment for fiscal decentralization in Egypt and to lay[ing] the foundation for a sound, feasible program for the deliberate pursuit of that objective." The requirement for pilot activities in Phase I was dropped, to be included in Phase II, if the Mission decided to continue with a second Phase. By the end of Phase I of the project, the contractor will have successfully completed the analytic and study phase of the revised schedule, per the amended contract.

In the event, even though the contractor met the obligations under the amendment, the results of this component would probably not be described as a marked step toward fiscal decentralization. The two primary reasons for this seem to be: (1) the fact that the Mission, in its earlier effort, had gotten far out in front of the GOE in the objectives that it felt that it could achieve. This was clearly manifested in the fact that the special Committee that had been appointed as the project counterpart to the project rarely met and (2) the Minister of Finance was left completely "out of the loop" in that system. The latter point itself might merely be another reflection of the GOE's reluctance to take fiscal decentralization seriously at the time. Whatever the reason, this exclusion was almost certainly fatal to any attempt to obtain even modest advances in fiscal decentralization.

E. Checklist Against Measurable Indicators

Given the dramatic changes in schedule and tasks that were imposed by the GOE's press to implement the Sales Tax, and as manifested in the twice-amended Contract, an item-by-item comparison here of accomplishments with the project paper list of indicators and proposed outcomes, does not seem to be fruitful. Though there is still much residual overlap between the two, in the sections above accomplishments were measured against contract requirements rather than the PP. For the record, the list of Measurable Indicators from the Project Paper are reproduced in Attachment B to this Report.

F. AID Project Management[1]

Judging from interviews with the contractor and those GOE officials most directly involved, AID's management of this project has been very good. Mission managers made an important and particularly appropriate decision in moving project responsibilities from the Education and Training Office of HRDC to the Economic Affairs Directorate, and the local finance component of LD II to this project at a time when the project activities provide critical complementary technical support to the Government of Egypt's comprehensive structural adjustment program.

The contractor is generally satisfied with AID's management of this project. Contractor relations with, and support from, the USAID Contracts Office are reportedly good, as are relations with concerned Mission management and staff as a whole. It appears that the only area that continues routinely to generate disagreement between the Mission and the contractor is in the controller function, notably voucher examination. This appears to be more on the order of an ongoing nuisance for both sides rather than a significant structural problem. However, given the amount of time that can be expended in resolving issues as each case arises, it would seem worthwhile to explore means whereby mutual understanding of the interpretations of AID regulations can be reached.

<u>Recommendation:</u> **The project manager, the contractor and controller's office staff should increase**

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[1] The present review is a substantive evaluation, not an audit. No attempt was made to gather information or to view either AID or contractor project management from an auditor's perspective.

their efforts to reach a mutual understanding of AID regulations and of their application in an effort to keep ad hoc disputes to a minimum.

All parties agree that much of the success of the project in Phase I can be attributed to AID's project manager. In addition to tireless effort and firm control over the managerial function, that individual has won the confidence and trust of each side. In particular, both the contractor and GOE officials cite times when key interventions by the project manager helped to dissolve impasses and allowed the project to move forward at critical points. The Minister of Finance and both of his Department Directors were absolutely unrestrained in their enthusiasm and bounteous praise for the work that the AID project officer had done in the first phase. As in other areas of this project, individual personalities and interpersonal relationships are critical and it seems clear that Phase I would probably have been far less successful with a different project officer.

This bodes well for Phase II, but should also give the Mission some pause as it contemplates moving forward with the project. The demands of the project on the current manager under Phase I are clearly already represent more than a full time job. If the Mission decides to move forward on all fronts in Phase II, the increased workload could overwhelm one person. Worse, the day-to-day paper work and trouble-shooting would divert the present manager from what is her obvious comparative advantage---liaison.

Recommendation: **If the Mission chooses to move forward in all components, including local finance, in Phase II, serious consideration should be given to assigning a full-time administrative assistant or an additional part-time person to assist the project manager.**

G. Contractor's Project Management

Based on direct observation and reports from interviewees, the contractor's management of the project has been excellent to outstanding. The physical facilities are adequate, well equipped and conducive to productive work. The local staff appear to be well qualified and highly motivated.

The contractor has secured the services of an excellent team of long-term resident advisors of the highest calibre who are internationally recognized experts in their respective specialties. The numerous short-term advisors that have been brought in at various stages of the project are virtually all of the very first rank in their respective fields and widely experienced in similar work around the world.

The resident advisers seem to have excellent access to, and relations with, their government counterparts, and mutual respect is apparent. The contractor has scrupulously documented the reform program and the proposals made by individual experts. Monthly reports to the Mission and the government are complete, frank, and informative. As noted elsewhere in this report, the contractor's major product for Phase I, the tax reform proposal, is of the highest standard and conforms to the latest thinking on the economics and administration of income, sales, and excise taxation.

Government officials were uniformly praiseworthy of the technical assistance personnel provided under the project. The Minister of Finance went so far as to say that the experts provided under Phase I were "the best people [quality-wise] that I have ever worked with." Such strong client endorsement of assistance in an area as controversial as tax reform is rare. This statement underscores the importance, in evaluating the successes of Phase I and the prospects for Phase II, of recognizing the key role that individual personalities, notably those of the Peat Marwick project manager, deputy project manager and sales tax expert, played in establishing a rapport with the government.

III. Conclusions and Recommendations

A. Excise, Income Taxes and Policy Analysis

The initial success in implementing the sales tax and the enthusiasm for the sales and income tax components on the part of the Minister of Finance and other GOE officials directly affected by the project in themselves provide ample reason to proceed to Phase II with these three components. Indeed, termination of the these components at the present stage could be highly disruptive to the GOE's fiscal situation. The work is critical to helping the government meet some of its obligations under the structural adjustment program and it is highly improbable that the GOE could sustain the new sales tax or implement a revised income tax without the kinds of assistance envisioned for Phase II. This project is one of the examples of "where the rubber meets the road" in converting policy reform conditions such as those proposed by the IMF and the IBRD into actual, implemented policies and programs. Structural reform cannot succeed without proper implementation, and projects such as this are an important means of assuring that this occurs. USAID is at present the only donor doing serious work in implementation of tax reform. It would be highly undesirable to abandon the government with a partially implemented sales tax and an income tax reform in its earliest stages. There is still need for further policy analysis and for transferring the technology of tax policy analysis to the GOE. Establishing a tax research unit as originally envisioned for Phase I will be key to ensuring that the government will be able to sustain its new system when external support is finally withdrawn.

The Mission will need to work with the contractor and the government to verify the (already *de facto*) modified scope of work for Phase II, because external events (i.e., the press to implement the sales tax) altered the sequencing of assistance from that originally foreseen in the project paper.

Recommendation: **The Mission should proceed to Phase II with the Sales Tax, Income Tax, and Policy Analysis components of the project. It should reinforce its efforts to ensure that a policy analysis unit is established in the Ministry of Finance at an early stage in order to maximize the potential for sustaining the technology transfer provided by the project.**

B. Local Finance

There are compelling arguments to work in the area of local finance in Phase II. First, the fiscal problems correctly identified in LD II still exist and merit GOE attention at some point. Second, as is the case with customs (see below) there is merit in "doing it right" the first time by addressing all of the major elements of the GOE's tax system in the context of a global reform effort that aims for completeness and internal consistency. If reforms in income and sales taxes proceed as planned, failure to improve other elements of the system, such as the property tax, would leave an archaic element in overall revenue system that would need to be upgraded at a later date. Third, even modest administrative reforms stand to "pay off" reasonably well. The present PFAP contractor estimates that overall revenues from these various sources are around LE 130 ($39) million annually and could readily be doubled with rather simple administrative improvements, even absent policy changes. Policy reforms in such areas as the property tax could increase yields by a factor of 10 or even much more. A simple with-or-without comparison therefore suggests that technical assistance resources could be profitably applied to local finance even in its present context. Finally, an argument can be made that while Phase II local finance would not yield significant demonstrable Democratic Pluralism (DPI) results, it should be able to develop fiscal management systems, trained personnel and enhanced technical capacity that will be capable of managing a more decentralized system at some future date. Moreover, one should not underestimate the important role that awareness can play in inspiring policy reform. Economic modelling exercises, similar to those undertaken for the Sales and Income tax development exercises, can generate "benefit/cost" scenarios that would illustrate to the GOE the (sometimes huge) revenue "costs" of retaining various legal, regulatory and administrative features (including the behavioral incentives created for local administrators) of the current system.

<u>However, before deciding to proceed</u> with the local finance component of the project in Phase II, and in light of its experience under LD II and in Phase I of the current project, the Mission should firmly assure itself that some critical prerequisites have been met.

First, <u>USAID/Cairo must clearly identify the primary objective that it seeks to accomplish</u> with this element of the project. A devolution of fiscal powers to the governorates and lower levels is not likely to happen soon. The current project is unlikely to be much more successful than LD II was in progressing toward that objective (although it was pointed out in discussions that the results could represent "one or two stones in the foundation" of an eventually more decentralized edifice). It is not a strong candidate for DPI flagship project status. Furthermore, there is not even a guarantee that improvements in fiscal management deriving from additional technical assistance will necessarily increase the level of resources available to lower levels of government---a key aim of LD II. The MOF might merely use increased property tax yields to reduce the central subsidy to local governments (though some sharing of the increase does not seem to be improbable). Therefore, if these are the Mission's primary concerns, it would be well advised not to pursue local finance in Phase II.

A more realistic approach would be to pursue the more modest, but worthwhile, fiscal reform objectives that were listed above. But, in thus deviating from the course pursued under LD II, the Mission should proceed *with full awareness of what it will and will not be able to accomplish* in Phase II local finance.

Second, <u>AID should obtain sound assurances that the Minister of Finance is firmly committed to his recently-expressed interest in receiving technical assistance in local public finance</u>. This appears likely. During his interview, the Minister said that **"[local public finance] is a very important part of our financial program,"** and expressed the need to "better to unify efforts" and went on to say that a unified [overall revenue] program, "working under the same umbrella" is necessary.

Of particular significance to AID, given the contractor's startup experiences in both sales and income tax reform, and the important role that individual personalities seem to have played in making progress to date, **it would be prudent for the Mission to ensure that the Minister of Finance is willing to appoint, <u>from the outset</u>, a project liaison person from his staff to focus on the local finance component as he eventually did for both the sales and income taxes.** Absent this, there is reason to fear costly delays in getting this element of the project moving at the necessary pace and to seriously weigh the merits of attempting further work in local public finance.

Recommendation: **Resource levels permitting, the Mission should proceed with work in local public finance in Phase II, but adjust its expectations regarding what it intends to achieve. This work should be aimed at more narrowly fiscal, rather than political-economic, objectives, but include significant modelling and other "benefit/cost" analyses aimed at heightening awareness in the MOF of the fiscal costs of unmodified administrative and policy structures. The Mission should be cautious about embarking on even this less ambitious course without prior assurance that the GOE has designated as its liaison an individual of calibre and commitment equivalent to those presently assigned to the sales and income tax reform work.**

C. Customs

The customs component of the project is beyond the scope of work of this evaluation, and there is no intent to prejudge the outcome of that assessment. However, there are some important areas of overlap between customs and other elements of revenue reform that merit a brief general comment here. The Minister of Finance volunteered the opinion that he would like further technical assistance in customs.

If, after reviewing the evaluation of the customs component, the Mission decides to provide more technical assistance in customs during Phase II, a strong effort should be made to improve coordination between the customs TA and that provided for the other components. First, customs revenues currently comprise nearly half of collections under the sales tax, even though they are administered by two separate departments within the GOE. Successful implementation of Phase II of the sales tax component and development of an ultimately sustainable revenue system would seem to depend significantly on the creation of parallel management and technical capabilities in the sales and customs areas.

Second, since the GOE has already embarked on an unprecedented reform of its tax system, there is something to be said for "getting it right the first time" by creating a balanced, internally consistent, system with each element designed to complement the other.

Third, the GOE is engaged in an overall structural adjustment program that includes significant reforms of the international trade and tariff regimes. Many of the proposed trade liberalization reforms (e.g., lowering rates, substituting tariff for nontariff protection measures) may have profound implications for government revenues about which the Minister of Finance should be aware in order to make well-informed decisions about other elements of the tax system. This further suggests that it would be advisable to more carefully analyze customs from fiscal and macroeconomic perspectives rather than only in terms of administration.

Recommendation: **If the Mission decides to proceed with further technical assistance in the customs component under Phase II of the project, particularly if it moves beyond mere administration and into analysis of customs in a wider context, it should seek to establish a delivery mechanism that will ensure free communication and coordination between the experts and their GOE counterparts working on customs reform and those working on other areas of the revenue system. Furthermore, it will be important to shift the emphasis from not only customs administration to viewing the role of customs in the overall tax system.**

ATTACHMENT A

Specific Tasks for the Amended PFAP Contract

C.3. Specific Tasks

For each of the three project components (Administration and Policy Analysis Unit, Income Tax Administration Unit and Excise Tax Administration Unit) the Contractor shall perform Tasks 1-4 as described below. In addition, the Contractor shall perform Task 5.

a. Task 1. Studies:

Studies to be completed shall include, but not be limited to the following:

1) Administration and Policy Analysis Component

a) A tax reform policy package that includes a set of coordinated tax policies and draft legislation in income tax policy, customs tax policy; and excise tax policy;

b) A coordinated administrative, operational and procedural reform package for the offices of Income Tax Administration, Customs Tax Administration, and Excise Tax Administration;

c) A prioritized implementation plan for the above policy and administrative reform packages;

d) Special studies on problems of property and inheritance taxes and ways of solving them.

2) Income Tax Administration Component

a) Uniform tax enforcement policy;
b) Interrelationship to other taxes;
c) Cost and collectability of income taxes;
d) Income taxation's effect on private sector development;
e) Rationalization of income tax rates;
f) Simplification and clarification of taxation code; and
g) Unification of income taxation schedules into a global system.

3) Excise Tax Administration Component

a) Development of standardized administrative policies and operating procedures;
b) Improvements in administrative controls;
c) Improvements in systems for information flows; and
d) Simplification and clarification of excise laws and procedures.

The Contractor may be requested to identify analyze and present other priority issues as a result of operational experience and pilot activities.

b. Task 2. Training:

A training procurement plan will be submitted to the USAID Project Officer within seven months of the arrival of the Chief of Party in Egypt. This proposed procurement plan will reflect Contractor's recommendations for modernizing the Tax Department's training facilities, based on visits to the central training facility and each of the existing regional training facilities. When sufficient contract funding is available to execute this procurement, and with the approval of the USAID Project Officer, the procurement plan will be presented to the Project Steering Committee for approval and then execution by the Contractor.

The contractor will also assess the desirability for out-of-country training and present recommendations to the Project Officer on the desirability of such training within eighteen months of the arrival of the Chief of Party. If such training is recommended, the recommendation will be accompanied by: detailed supporting descriptions of the objectives of such training; course descriptions; costs; criteria for selection of individuals for such training; and, to the extent possible, the specific identity of individuals recommended for training. All participants training must be in accordance with the rules and regulations contained in AID Handbook #10, Participant Training.

With respect to local training, the Contractor shall develop recommendations for at least 5 new training centers after the modernization of existing centers, as outlined above, has been completed. The contractor's activities will also include but not be limited to: recommending additional or revised training materials and recommending new courses. These activities will require the Contractor to visit existing and prospective training center sites throughout Egypt.

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ATTACHMENT B

Measurable Indicators from the Project Paper

PUBLIC FINANCE ADMINISTRATION PROJECT (263-0209): Project Design Summary, Logical Framework.

STATUS OF OBJECTIVELY VERIFIABLE INDICATORS AT THE END OF PHASE I:

GOAL:

Taxpayer awareness will be measured through surveys by

- Response to field testing of more efficient systems.
- Reaction to proposed tax policy reforms.

Ministry awareness will be measured by willingness to publish budget.

PURPOSE:

Efficiency:
The Performance Monitoring System will increase departments' awarness of their efficiency measured by the ratio of collections to costs. The system will provide a baseline, track improvments, and allow comparison of standard and new procedures being field tested.

Equity:
Analyses of equity and tax incidence will reveal biases in current system and provide basis proposed policy reforms.
Additional measureable outputs will depend on administrative reforms implemented during Phase I.

No measureable results are expected in the areas of elasticity and neutrality until the full package of of administrative and policy reforms are implemented during Phase II.

OUTPUTS:

1. Proposed body of legislation, policy and administrative changes to be enacted with a prioritized implementation plan.

2. Functioning Performance Monitoring System that provides baseline information and documents progress to date.

3. Completion of needs assessment and training plans. Design and implementation of inital program. System for evaluating training impact and annual plan up-date in place.

4. Design of MIS system completed. Testing and training of personnel underway.

5. Public awareness campaign designed, field tested and recommended.

6. Special studies on estate and property taxes completed.

Inputs (AID)

Inputs (AID)	(000)
- Technical Assistance	$4,567
- Commodities	912
- Training	335
- Conferences and Evaluation	110
- Contingency	977
	$6,901

Inputs (GOE)

Inputs (GOE)	
- Staff	LE 527
- Training	528
- Logistics	437
- Contingency	126
	LE 1,618

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PUBLIC FINANCE ADMINISTRATION PROJECT (263-0209): Project Design Summary, Logical Framework.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Inputs			
	AID: (816,200)	AID:	
1. TA	810,741 (913 PM)	Project files, site visits.	
2. Commodities	2,025 (ADP and other related equipment)		
3. Training	740 (U.S. Training)		
4. Evaluation/Conferences	200		
5. Other	2,494 (inflation and other misc. contingencies)		
	GOE: (In-kind contribution estimated at LE 8,857,127)	GOE:	GOE:
		Site visits.	Funding commitments maintained.
1. Counterpart Staff	400 ADP and other staff directly working on project elements (est. LE 3,106,640)		
2. Facilities/Logistics	Office space, training centers, ADP, furnishings, utilities, etc. (est. LE 1,540,000)		
3. Training	In-house training, support for ADP, MIS, other (est. LE 2,970,000)		
4. Publications	Printing of manuals, MIS information, etc. (est. LE 586,000)		
5. Other	Inflation, misc. (est. LE 654,487)		

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PUBLIC FINANCE ADMINISTRATION PROJECT (263-0209): Project Design Summary, Logical Framework.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Outputs	Measures of Outputs Achievement		Assumptions Related to Output
1. An enacted body of legislation, policy statement and administrative procedures which structures an efficient and equitable tax system.	1. Revised tax laws, MOF decrees and tax department's operations procedures manuals.	1. Policy Reform: - USAID and MOF documentation on administrative changes & GOE tax code. - Taxpayer Surveys.	1. Adequate GOE Budget as needed to implement changes on schedule. 2. Legislation necessary to change tax law can be processed through the People's Assembly. 3. No exogeneous factors upset People's Assembly. 4. No exogeneous factors upset procurement, TA and training schedule required to implement changes according to the project's design.
2. Performance Monitoring System which permits ongoing evaluation of the relative efficiency and performance at each level (Department and Office).	2. Performance Monitoring System used for: - Evaluation of the relative efficiency and performance at each level (Dept. & Office), and - Identification of problems for analysis.	2. MOF Performance Monitoring System: - Reports, - Analyses.	
3. Comprehensive in-service training systems in each of the principal tax departments.	3. Adequate staff and facilities to train all new employees immediately upon entry. - Proper in-service training of all employees on new procedures within the schedule set for public implementation of the new procedures. - Adequate in-service skills upgrading courses to support the tax systems' responsibilities and employee career development needs.	3. Performance Monitoring System reports indicating that employees are following new procedures and that efficiency has improved.	
4. MIS System: - MIS's functioning in each of the principal tax departments. - A ministry wide MIS which links the tax departments MIS's and the expenditures side of the ministry.	4. MIS's capable of responding to analytical and organizational management needs.	4. MIS reports available on a timely basis.	
5. An operational national information campaign related to taxes, expenditures and the budget.	5. Public information readily available.	5. Taxpayer Surveys.	

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PUBLIC FINANCE ADMINISTRATION PROJECT (263-0209): Project Design Summary, Logical Framework.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Project Purpose	Measures of Purpose Achievement		Assumption Related to Purpose
Improved efficiency of tax administration and equity in the incidence, assessment and collection of taxes.	1. Principal tax instruments conform to generally recognized standards in the following categories: a. Efficiency: - Tax collection compared to the cost of collection. - Reduction in document processing time. b. Equity: - Equal treatment of individuals and firms equally circumstanced. - Improved tax incidence. c. Elasticity: - Responsiveness of tax revenue to changes in tax base. (Tax elasticity should be greater than zero.) d. Neutrality: Tax instruments should have minimum unintended distortion on individual and corporate behavior. 2. MOF willingness and capability to seek and correct inefficiencies, inequities and distortions as they arise due to changes in the Egyptian economy.	1. a. Efficiency: (1) MOF Monitoring & Evaluation System Data on: - expenditures & collections by department & office. - document processing time by department & office. (2) Income Tax Department & APAU* analyses of effect of priority review systems. b. Equity: - Taxpayer surveys. - Analyses by APAU & Departments of tax incidence. c. Elasticity: Analyses by APAU & Departments on effect of increased number of income tax filers, companies paying excise tax, and effect of sales taxes as well as potential of proposed additional taxes (property, estate, sales). d. Neutrality: - APAU analyses on tax incidence. - Taxpayer surveys. 2. MOF and USAID documentation on administrative changes made to increase efficiency, progress on implementing new systems, progress on public awareness campaign, and proposals made within GOE and to People's Assembly.	1. Consensus can be reached on the operational definition of efficiency, equity and neutrality. 2. The GOE will balance its need for revenue against the other principles of taxation. 3. Necessary policy, legal and administrative changes will be enacted in a timely manner. 4. The demand for greater tax revenues will be reduced by expenditure cuts and use of user fees where appropriate. 5. The GOE will continue its emphasis on the growth of the private sector.

*APAU: Administrative and Policy Analysis Unit

PUBLIC FINANCE ADMINISTRATION PROJECT (263-0209): Project Design Summary, Logical Framework.

NARRATIVE SUMMARY	OBJECTIVELY VERIFIABLE INDICATORS	MEANS OF VERIFICATION	IMPORTANT ASSUMPTIONS
Program Goal or Sector	Measures of Goal Achievement		Assumptions for Achievement of Goal
Increased public exposures to GOE expenditures through efficient & equitable taxation.	1. Taxpayer awareness indicated by - Taxpayer willingness to file - Decline in tax return protests. - Taxpayer awareness that level of taxes relates to level of GOE expenditures. 2. Ministry awareness measured by - Willingness to publish comprehensive budget (including subsidies and deficit). - Willingness to permit public opinion to shape the size and form of the budget.	1. Taxpayer Awareness: - MOF Data on number of new filings, tax protests, and cases proceeding to litigation. - Taxpayer Surveys. 2. MOF awareness: - Copy of published budget. - Discussion of budgetary issues in print media. - Taxpayer Surveys.	1. Implicit taxation is reduced or made explicit. 2. Hidden subsidies are made explicit in the budget. 3. Taxpayers prefer a cut in expenditures rather than a rise in taxes.

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ATTACHMENT C

Bibliography of Special Studies
Undertaken in Phase I

INDEX FOR PFAP REPORTS FOR 1990

NO.	NAME	SUBJECT
1.	Gordon W. Cox & Arthur C. Morrow	Survey of Indirect Tax System
2.	Kenneth Stacey	Survey of Customs Administration in Egypt
3.	William Fox	Estimating & Tracking Revenues in the Ministry of Finance
4.	Malcolm G. Lane	Computerization of Tax Administration in a Developing Country
5.	James Alm & Darwin G. Johnson	Analysis of Taxes on Wages and Salaries in Egypt
6.	Daniel Holland	Property Taxation in Egypt
7.	William Hernandez & John Baldwin	Procurement of Computer Hardware & Software
8.	John Baldwin	Initial Training Recommendations of the PFAP
9.	Dr. Matthew N. Murray	Taxation of the Hard to Tax Sector
10.	George Zodrow	Marginal Effective Tax Rates on Capital Income in Egypt
11.	John Baldwin	An Organization of Tax Administration for Arab Nations

INDEX FOR PFAP REPORTS FOR 1991 - 1992

	NAME	SUBJECT
1.	George Zodrow	Issues in the Taxation of Capital Income in Egypt
2.	Charles E. McLure	Tax Policy in a World of State Ownership and Economic Distortions: The Egyptian Case
3.	John F. Due	The Role of Excises and Related Taxes in the Indirect Tax Structure of Egypt
4.	Richard H. Adams	The Taxation of Agriculture in Egypt
5.	Mr. George Whitehouse	A Proposed Training Program to Support the Comprehensive Tax Reform Program in Egypt

INDEX FOR LPF REPORTS

NO.	NAME	SUBJECT
1.	Roy Bahl	Fiscal Decentralization
2.	Larry Schroeder	Intergovernmental Fiscal Relations in Egypt
3.	James Wozny	The Current Structure and Financing of Local Administration in Egypt

UNEDITED PROJECT REPORTS FOR 1991

NAME	SUBJECT
Donald J.S. Brean	International Aspects of Taxation
George Zodrow	Investment Incentives in Egypt
Donald J.S. Brean & Richard M. Bird	Taxation of Tourism in Egypt
Guillermo Perry	Petroleum and Public Finance in Egypt
W. H. Forst	Taxation Department Organization
Cedric Sandford	Taxation of Wealth in Egypt
Jorge Martinez	Trade and Tax Policy in Egypt
W. M. P. Weerasinghe	The Addition and Discount System

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ATTACHMENT D

Executive Summary and Table of Contents for

"A Comprehensive Tax Reform Program for Egypt"

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A COMPREHENSIVE TAX REFORM PROGRAM FOR EGYPT

Submitted to:

The Ministry of Finance
Government of Egypt

and

U.S. Agency for International Development

Prepared by:

The Policy Economics Group
of
KPMG Peat Marwick

October 1991

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EXECUTIVE SUMMARY

INTRODUCTION

The report presents a comprehensive program of reform that addresses the full range of direct and indirect taxes levied by the Government of Egypt and administered by the Ministry of Finance. These taxes include: income taxes, sales taxes, stamp duties, customs duties, property taxes, and inheritance taxes. Within this comprehensive program, primary emphasis is given to reform and modernization of the income tax through the introduction of a global income tax. Such a tax, in combination with the introduction of a sales tax in May of this year, will provide the foundation for a modern and efficient tax system in Egypt.

The report is organized in two parts. Part I describes the overall economic and fiscal setting for tax reform, and presents a summary of the structural and administrative reforms that are recommended, together with the estimated revenue effects of these reforms. Part II presents a detailed description of each of approximately 100 different tax reform recommendations.

The major objectives of the tax reform program and the general strategy for achieving these objectives are shown below:

<u>Objectives</u>
Improve the revenue productivity of the Egyptian tax system
Improve the fairness of the tax system
Eliminate a wide range of tax-induced distortions in economic activity
Simplify the tax system, to ease compliance and department administration
Streamline and modernize the existing system of administration.

<u>Strategy</u>
Introduction of a global income tax
Expansion of the role of sales taxation
Elimination of stamp duties and duplicative taxes
Reform of property and inheritance taxes
Introduction of a wide range of major administrative reforms

GLOBAL INCOME TAX

Introduction of a global income tax is the cornerstone of direct tax reform. The proposed reform would integrate the existing schedular tax system into a single global income tax, substantially broaden the tax base, and greatly reduce tax rates. It would be accompanied by a number of complementary and essential administrative reforms. Key features of the global income tax reform are outlined below:

<u>Structural Reforms</u>

<u>Individuals</u>

- *Tax Rates*: The present complex set of tax rates, with marginal tax rates as high as 80 percent, would be replaced by a single two-rate schedule with rates of 15 percent and 30 percent. The corporate rate would be set at 30 percent, the same as the top rate for individuals.

- *Family Burden Exemption*: The family burden exemption, or the tax-free level of income, would be increased from a maximum of LE 960 to a maximum of LE 4,000. This would remove many low-income taxpayers from the tax roles, thereby improving equity of the tax system and reducing the burden of tax administration.

- *Base Broadening Measures*: The base of income taxation would be broadened substantially by a number of different reforms:

  - Most importantly, the tax-exemption currently applicable to interest on Government bonds and bank interest would be repealed, thereby making all interest income subject to tax.

  - A broad range of exemptions and special provisions applicable to taxes on wage income (which, for Government and public sector workers reduce the income tax base by over 50 percent) would be repealed.

  - The large majority of personal deductions, including deductions for mortgage and personal interest, special savings incentives, and life insurance premiums, would be eliminated.

- *Reliance on Withholding*: Greater reliance would be placed on use of the withholding mechanism, allowing virtually all taxes on wage and interest income to be collected through withholding.

Businesses

- *Integration of individual and corporation income taxes*: Dividends would be taxed at the entity level through the corporate income tax and would not be subject to further taxation.

- *Depreciation reform*: Business depreciation would be greatly simplified and reformed to allow business income to be measured more accurately and to ease the burden of taxpayer compliance.

- *Moratorium on tax holidays*: New tax holidays would not be granted and existing holidays would be phased out This is the single largest base broadening provision in the tax reform program applicable to corporations and, when fully phased in, would increase income tax revenues from private sector corporations by nearly 50 percent.

- *Other base broadening provisions*: Other special preferences under existing law would be repealed, including a special allowance for machinery and equipment, and a special deduction for imputed rent of business-owned and occupied properties.

Administrative Reforms

The structural income tax reforms outlined above will be successful only if they are accompanied by major reforms to the existing system of administration and by a sustained effort to modernize the Tax Department's operations. Major such reforms include the following:

- *Penalty reform*: Existing penalties are inadequate and poorly enforced, thereby encouraging non-compliance. Penalty reform is therefore essential. A comprehensive reform to the penalty structure is proposed that links the magnitude of the penalty with the seriousness of the offense.

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- *Computerization*: The key to modernization and improvement of tax administration is computerization. The reform program presents specific recommendations for computerizing the Tax Department's operations, some of which are already underway.

- *Managing the backlog of cases*: The tax reform recommendations highlight the need for the GOE to address, at the time of implementation of a global income tax, the large existing backlog of cases spanning a period of five or more years. It is suggested that innovative "one-time" solutions may need to be considered.

- *Introduction of estimated payments system*: Streamlining of administration and improvement of cash flow is proposed through the introduction of a system of estimated payments in place of the existing system of additions and discounts.

- *Organizational reform*: With the introduction of the comprehensive tax reform program, and the introduction of computerization, major reforms to the organization of the Tax Department will be required.

INDIRECT TAX REFORM

Egypt relies heavily on indirect taxes to finance central government activities, with sales taxes, customs duties, and stamp duties all being important contributors to government finances. This already large role for indirect taxes was enhanced in May 1991, when the GOE introduced a broad-based sales tax. The discussion below highlights major recommendations for each of these three areas of indirect taxes.

Sales Taxes

The introduction of a broad-based sales tax this year was without question the most important tax reform in Egypt in decades. The new tax provides a strong foundation on which future indirect tax reforms can build. Recommended tax reforms for the future include:

- *Taxation of services*: As the sales tax matures greater reliance should be placed on taxation of services. In the short-term, the existing tax rate on tourist services could be doubled, from 5 percent to 10 percent, and electricity and telecommunication services could be added to the tax base.

- *"Excise" tax reform*: Twelve commodities are taxed separately under the General Sales Tax Law at separate rates. The tax reform program proposes a number of reforms to these "excises".

  - The traditional excises on alcohol, tobacco, petroleum products and soft drinks should be retained. The others should be taxed under the regular sales tax structure.

  - Taxes on motor fuel should be increased significantly from current levels.

  - All excise taxes levied on a specific rather than an ad valorem basis should be adjusted regularly for inflation.

  - Goods subject to the excise should also be subject to the sales tax.

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- *Extension of the sales tax*: The sales tax legislation calls for extension of the sales tax to the wholesale and retail level. This extension will represent a major reform, the planning for which should begin now, even though the extension will not occur for some period of time.

Stamp Duties and Related Taxes

Egypt levies a broad range of stamp duties, development duties and a social solidarity tax that, together raised about LE 2 billion in 1990-91. Stamp duties are among the oldest form of taxes and are considered to be archaic and ill suited to a modern system of taxation. The stamp duties and related taxes are often duplicative of other levies and Government fees and greatly increase the complexity of the tax system. Accordingly, it is recommended that all of these duties and taxes be abolished. The revenue loss is accommodated under the tax reform program through other income and sales tax reforms and through reductions in Government procurement costs that can reasonably be expected to result from elimination of stamp duties on Government purchases.

Customs Duties

Egypt raises a high share of its revenues from taxes on international trade. As economic development advances, tariff rates should be reduced so that Egypt can benefit more fully from expanded trade and more extensive integration into the world economy. In addition to reducing average tariff rates, the dispersion of rates (which will range from 10 to 80 percent in 1992) should be reduced.

OTHER TAX REFORM

The tax reform program also recommends reforms to property taxation and to inheritance taxes in Egypt. Property taxation has never been a major source of revenue in Egypt, and over time its revenue contribution has in fact declined. Reforms are proposed to increase the importance of property taxation, through broadening of the base and through more frequent assessments of property values. Also, as part of a longer-term effort to give local governments more fiscal control and responsibility, it is recommended that these governments receive the power to set tax rates at levels appropriate to their needs. Reform of the inheritance tax is also recommended; under the current structure, the tax is too insignificant to achieve any economic or social purpose.

REVENUE AND DISTRIBUTIONAL EFFECTS

A summary of the revenue effects of the entire tax reform program is presented below. The revenue effects of the program are shown from two perspectives, that of taxpayers and that of the Government. For taxpayers, the revenue effects are shown at the levels of economic activity prevailing in calendar year 1992 and indicate the changes in tax liabilities that taxpayers would incur compared to current law once the reform is fully phased in. These effects are most important in examining the distribution of tax changes and in analyzing who gains and loses from tax reform. From the Government's point of view, tax collections are presented for the three fiscal years beginning with 1992-93. These cash flow effects are crucial for achieving the budget targets of the Government of Egypt.

As the table show, the program is designed (based on conservative estimating assumptions) to increase revenues by LE 0.9 billion in 1992-93, LE 1.7 billion in 1993-94, and LE 2.6 billion in 1994-95. The report presents a detailed assessment of the revenue effects of each of the major components of the tax reform program.

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REVENUE IMPACT OF THE PROGRAM
(LE Millions)

	Fully-Phased in Effect (1992 Income Levels)	Fiscal Year Collections 1992-93	1993-94	1994-95
Global Income Tax	2,231	893	1,932	2,423
Indirect Tax Reform	1,134	25	-217	212
Total	3,365	918	1,715	2,635

Of primary concern in the design of the program for global income tax reform is the distribution by income class of the tax changes resulting from the program, with special emphasis given to wage earners. The analysis shows that taxes on wage earners are reduced by almost 30 percent, on average, and that the percentage reduction is greatest for low-income earners. The analysis further shows that for those taxpayers with wage income only and who currently comply with the tax system, "winners" from tax reform outnumber "losers" 13 to 1.

With regard to corporations, the analysis shows that the tax reform has a widely varying impact across firms of different size and in different industries. This occurs because the existing system has such a wide range of preferences that are taken by different firms in different degrees, whereas the proposed system is largely neutral and contains few tax preferences.

ORGANIZING FOR TAX REFORM

Due to its scale and complexity, comprehensive reform of the Egyptian tax system poses a greater implementation challenge than the successful implementation of the sales tax, an effort that required nearly a year of intensive preparatory work. Introduction of comprehensive tax reform will therefore require substantial advance planning. The breadth and scope of the tax reform effort is highlighted in the report by a review of the major implementation tasks that must be undertaken in preparation for introduction of such a program. These include development of the substantive policy and administrative reform program; legislative drafting; a broad range of implementation measures, including drafting of new tax forms, development of educational and instructional materials for taxpayers, substantial training of the large Tax Department work force, and Tax Department reorganization consistent with the reformed tax system.

The target date proposed for implementation reform is January 1993. Even this date assumes an aggressive implementation effort, beginning immediately.

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Sd

PART II: The Detailed Program

A. Global Income Tax Reform

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List of Tables, Examples, Figures, and Appendices

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ATTACHMENT E

Contractor's Proposed Six-Month Implementation Schedule for a General Sales Tax

EGYPT
SIX MONTH IMPLEMENTATION
SCHEDULE FOR A GENERAL SALES TAX

The following program for introduction of a general sales tax, levied only at the manufacturing and import levels, cover essential work required to achieve a smooth implementation within six months.

This program is a guide to what must be done to achieve a high level of compliance from the start and to avoid critcism and adverse publicity that could severely affect revenue collections.

Although Egypt does have a consumption tax on goods at the manufacturing and import level, it is imperative that completely new procedures be established. These will improve revenue collection and impress on staff and taxpayers alike that changes have been made and that a new and dynamic approach is being adopted with the introduction of the General Sales Tax.

In setting the critical times table (attached) for completion of the various tasks it has been assumed that:

- o Suitably able and experienced staff will be made available by June 30, 1990 to ensure that the work is done competently and efficiently;
- o High priority will be given, and necessary finance made available, to avoid delays in any aspect of the program;
- o Timely action will be taken to advise other departments of the Government of relevant requirements with a view to eliminating any causes for delay by them;
- o Where supplementary or complementary action is necessary for the implementation proposals, such action will be identified and taken by those concerned; and
- o The procedures for registration and collection of the General Sales Tax will be computerized from the beginning.
- o All phases of the development will be strictly controlled and regularly coordinated.

The implementation outline presented below divides each of the actions into one of five categories as follows:

1. Policy and planning;
2. Staffing and training;
3. Education and publicity;
4. Registration and implementation; and
5. Computerization

GENERAL OUTLINE FOR IMPLEMENTATION
A GENERAL SALES TAX IN EGYPT

Development of the Tax Structure

- Coverage of the tax
  - Manufacturing and imports
  - Exemptions from the tax base for goods
  - Coverage of services
- Tax rate
  - Multiple rates
  - Level of rate(s)
- Turnover limit for Registration
- Number of separate excise, and applicable rates

Development of Organizational Structure

- Development of organizational structure for implementation and identification of key staff to be dedicated to effort.
- Development of the long-term organizational structure.
  - Head office
  - Regional office structure

Staffing the General Sales Tax Office

- Determine the number type and level of staff required for General Sales Tax office and time profile for hiring.
- Selection of staff
- Training of staff
  - Training of core staff.
  - Training of other staff by core trainers.

Acquisition of Required Accommodation and Facilities for

- o Head office
- o Regional offices

Development of Legal and Administrative Documentation

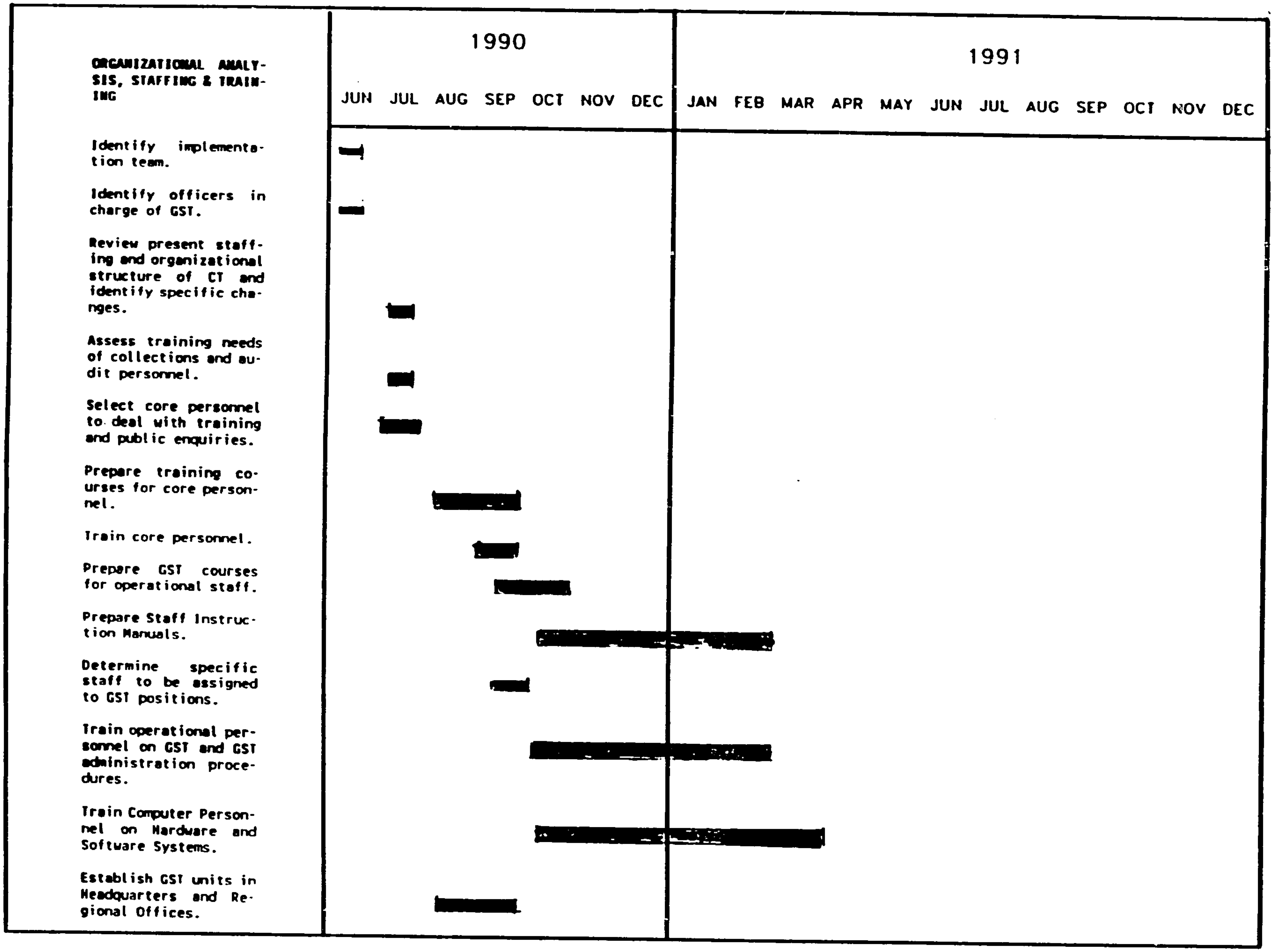
- o Legislation
- o Regulations
- o Tax forms
  - * For the public
  - * For internal use
- o Manuals

Computerization

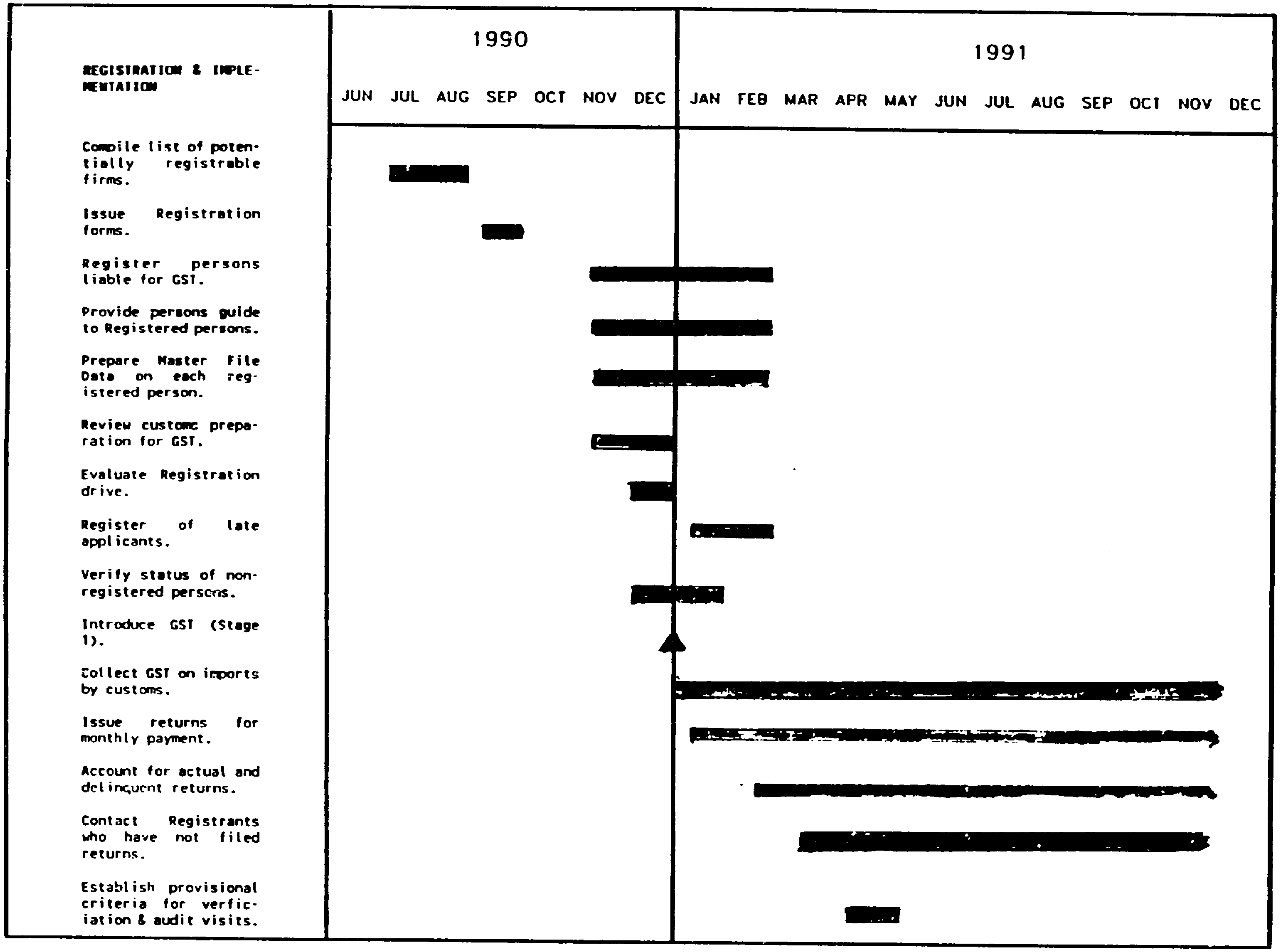
- o Development of specifications of system.
- o Development of taxpayer identification system.
- o Procurement of necessary hardware.
- o Development of processing software.
- o Training of Government staff on use of computerized system.

Information Campaign

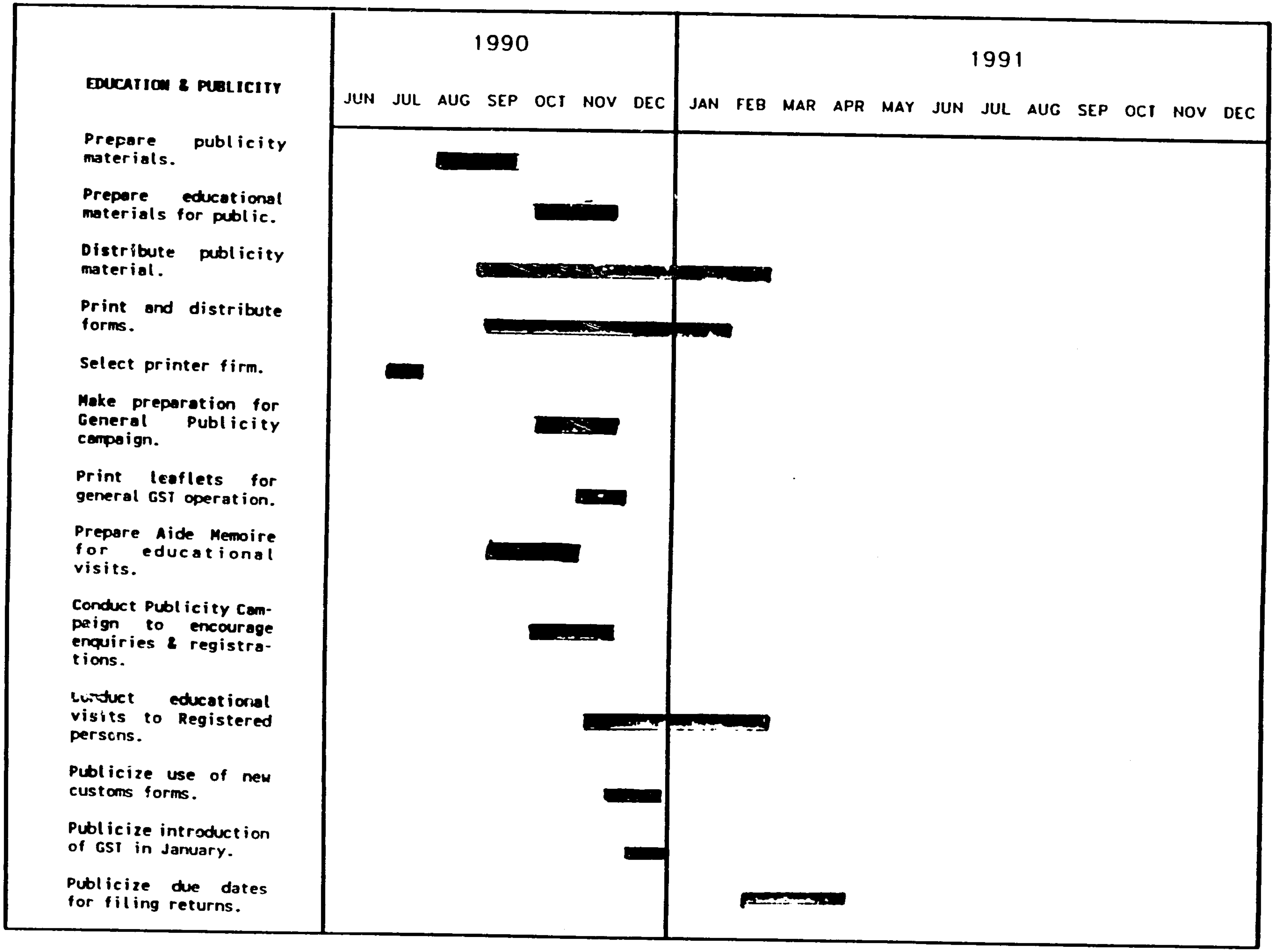
- o Development of materials for internal use in reaching final decisions on scope and structure of tax.
- o Publicity campaign targeted to general public.
- o Publicity campaign targeted to the business community describing their responsibility
  - * Registration
  - * Maintenance of accounting records
  - * Collection and remittance
- o Training of Government staff on use of computerized system


ORGANIZATIONAL ANALYSIS, STAFFING & TRAINING
1990
JUN JUL AUG SEP OCT NOV DEC
1991
JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC
Identify implementation team.
Identify officers in charge of GST.
Review present staffing and organizational structure of CT and identify specific changes.
Assess training needs of collections and audit personnel.
Select core personnel to deal with training and public enquiries.
Prepare training courses for core personnel.
Train core personnel.
Prepare GST courses for operational staff.
Prepare Staff Instruction Manuals.
Determine specific staff to be assigned to GST positions.
Train operational personnel on GST and GST administration procedures.
Train Computer Personnel on Hardware and Software Systems.
Establish GST units in Headquarters and Regional Offices.

ORGANIZATIONAL ANALYSIS STAFFING & TRAINING CONT'D	1990							1991											
	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Review staff requirement in light of number of Registered firms.																			
Refresher training of staff who will be making field visits to verify producers.																			
Assess further training needs and plan for audit training.																			


REGISTRATION & IMPLEMENTATION
1990
1991
JUN JUL AUG SEP OCT NOV DEC
JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC
Compile list of potentially registrable firms.
Issue Registration forms.
Register persons liable for GST.
Provide persons guide to Registered persons.
Prepare Master File Data on each registered person.
Review customs preparation for GST.
Evaluate Registration drive.
Register of late applicants.
Verify status of non-registered persons.
Introduce GST (Stage 1).
Collect GST on imports by customs.
Issue returns for monthly payment.
Account for actual and delinquent returns.
Contact Registrants who have not filed returns.
Establish provisional criteria for verfic-iation & audit visits.

REGISTRATION & IMPLEMENTATION CONT'D	1990							1991											
	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Take appropriate assessment & distraint actions.																			
Conduct selective verification visits.																			


EDUCATION & PUBLICITY
1990
JUN JUL AUG SEP OCT NOV DEC
1991
JAN FEB MAR APR MAY JUN JUL AUG SEP OCT NOV DEC
Prepare publicity materials.
Prepare educational materials for public.
Distribute publicity material.
Print and distribute forms.
Select printer firm.
Make preparation for General Publicity campaign.
Print leaflets for general GST operation.
Prepare Aide Memoire for educational visits.
Conduct Publicity Campaign to encourage enquiries & registrations.
Conduct educational visits to Registered persons.
Publicize use of new customs forms.
Publicize introduction of GST in January.
Publicize due dates for filing returns.

POLICY & PLANNING	1990 JUN	JUL	AUG	SEP	OCT	NOV	DEC	1991 JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Review tax reform proposal.																			
Develop implementation plan along with cost and staff estimates.																			
Coordinate with customs on all aspects of charging GST on imports.																			
Identify organizational changes.																			
Make preliminary estimates of new facilities needs.																			
Make arrangements for additional facilities.																			
Design GST forms for public use.																			
Design GST forms for administrative use.																			
Review customs entry forms for needed changes.																			
Review plans for collection of payments & computerization of data.																			

POLICY & PLANNING CONT'D	1990							1991											
	JUN	JUL	AUG	SEP	OCT	NOV	DEC	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Review readiness of GST administration.																			
Decide whether or not to introduce GST as scheduled in January.																			
Review operation of GST.																			
Review operation of enforcement actions.																			
Assess level of compliance.																			

GENERAL SALES TAX POLICY AND PLANNING

- **Receive Tax Reform Action Plan**

  -- Officials in the Ministry of Finance and the Consumption Tax Department meet with the Peat Marwick team to discuss recommendations and implementation plan for a general sales tax.

- **Review and Amend Action Plan**

  -- Review proposal with officials from the Ministry of Finance, the Consumption Tax Department, the General Managers and others, as necessary, to consider all aspects of the general sales tax, including the coverage and exemptions, the rate, the estimated yield and the administrative issues.

  -- Make any necessary amendments to the proposal based on input from the Ministry of Finance, and the Consumption Tax Department.

- **Policy Decision**

  -- Receive approval for implementing the amended plan from the Minister of Finance.

- **Legislation**

  -- Review new General Sales Tax draft legislation and identify any necessary changes to the Customs and the Excise laws and Consumption Tax Law.

- **Regulations**

  -- Drafting General Sales Tax Regulations to govern all aspects of General Sales Tax.

- **Resource Estimates**

  -- Prepare preliminary estimates of the resources needed to implement successfully the General Sales Tax and the revenue yield from the new tax and provide for expenditure authority.

- **Finalize Legislation**

  -- Officials in the Ministry of Finance meet with the parliamentary draftsman to discuss in more detail the proposed legislation and incorporate any necessary changes.

  -- Receive final approval of new General Sales Tax legislation from parliament.

- **Finalize Implementation Plan**

  -- Complete the drafting of the General Sales Tax Regulations, including the application form for registration, the certificate of registration and the sales tax return form.

  -- Coordinate with customs on all aspects of charging General Sales Tax on imported goods, including arrangements for amending the Egypt Customs Tariff.

  -- Refine estimates of expenditures and ensure that adequate financing will be made available when needed.

- **Resource Planning**

  -- From the numbers of persons provisionally expected to register, prepare estimates of personnel and office accommodation requirements as implementation progresses at each office.

  -- Decide sources from which personnel are to be obtained, making appropriate arrangements to relax selected other work accordingly.

  -- From the assessment of office accommodation requirements, identify likely locations.

- **Policy**

  -- Issue the General Sales Tax rules.

- **Review Program Progress**

  -- Carry out a review of progress to date together with future tasks in the program to identify any potential problem areas or possible delays.

  -- Take whatever actions are necessary to eradicate any foreseen problems or delays.

- **Stock Relief**

  -- Consider case for granting relief from Consumption Tax paid on stocks on hand at the end of month 12.

- **Planning**

  -- Review plans for collection, computer input of returns, and reconciliation with banks.

- **Review Program**

  -- Review progress to date and, if necessary, identify problem areas where emergency action should be taken.

- **Review Program Implementation**

  -- Review all General Sales Tax operations and levels of compliance in each Regional office and decide what further action needs to be taken to reduce the number of defaulters and to improve the accuracy of returns.

- **Assessment of Compliance**

  -- Review levels of compliance and decide if emergency action should be taken to increase prosecutions and other enforcement action.

- **Review Verification Results**

  -- Review the results of verification visits made to date and consider what action should be taken both to improve compliance and to increase the effectiveness of staff inc Regional Office.

GENERAL SALES TAX STAFFING AND TRAINING

- **Identify Implementation Team**

  -- Identify the personnel responsible for coordinating the implementation plan, which includes: developing staffing requirements, conducting training, designing and printing tax forms and instructions, educating taxpayers, registering businesses liable to General Sales Tax, and coordinating the computerization plan.

- **Computerization Team**

  -- Set up a computerization team, comprising officials from the Ministry of Finance, the Consumption Tax Department and other technical computer personnel.

- **Identify Computerization Team**

  -- Identify personnel to prepare detailed plans for the computerization of the registration procedures and the collection and enforcement routines, and possibly some time later, for the selection of registered persons for verification visits, recording the results of such visits, and other management information.

- **Identify Officers in Charge of General Sales Tax**

  -- Appoint a senior officer to a senior post in Head office to take over responsibility for the General Sales Tax Organization.

  -- Appoint a senior officer from each Regional office to the Sales Tax officer in charge' of the General Sales Tax organization in each of the nine Regional Offices.

- **Preparations for Training**

  -- Assess needs for training of General Sales Tax officers and clerical staff.

  -- Preliminary training plan to be prepared.

- **Staffing**

  -- Review Head office and Regional office requirements for staffing.

-- Review present staffing of revenue departments and identify competent staff at various levels for possible transfer to the General Sales Tax work.

- <u>Personnel</u>

  -- Select "core" personnel to be appointed to Head office and to the Regional offices to deal with public enquiries and to carry out staff training.

  -- Prepare a training course for "core" personnel and senior managers covering both legal and procedural aspects of the General Sales Tax.

- <u>Training</u>

  -- Commence training of head office and regional "core" personnel for dealing with public enquiries, covering all aspects of the General Sales Tax legislation and associated administrative requirements.

  -- Prepare General Sales Tax courses for officers and staff on registration and collection work.

- <u>Staffing</u>

  -- Identify other personnel to be engaged on General Sales Tax work and make preliminary arrangements for their appointment of deputisation.

- <u>Training</u>

  -- Commence preparation of staff instruction manuals using some of the "core" personnel already trained.

  -- Nominate trained "core" personnel to each Regional office to <u>prepare</u> for dealing with enquiries and to train operational personnel.

  -- Commence training of <u>operational personnel</u> in each regional office.

- <u>Staffing</u>

  -- Transfer trained "core" personnel back to their Regional offices.

  -- Check on recruitment and transfer of operational staff and expedite where necessary.

- **Training**

  -- Commence training courses for personnel in each Regional office involved in the making of educational visits to newly registered, or potentially registrable , persons.

- **Computer Training**

  -- Commence training of staff on the Regional offices on the use of the computer and the inputting of data.

  -- Establish General Sales Tax units in each Regional office.

- **Training**

  -- Continue training of staff in Regional offices on making educational visits.

  -- Continue training on the use of the computer.

- **Staffing**

  -- Review staffing requirements in the Regional offices in light of numbers registered.

- **Verification Training**

  -- Commence the training of staff who will be making verification visits to registered persons.

GENERAL SALES TAX EDUCATION AND PUBLICITY

- **Publicity**

  -- Prepare materials to be used in explaining the new General Sales Tax to the Members of Peoples Assembly, businessmen, and concerned citizens.

  -- Announce the intention to impose the new General Sales Tax to take effect on the first day of January 1991.

- **Prepare Educational Materials**

  -- Commence preparations of public notices for issue to potential Registrants and general publicity literature on the nature and effects of both the General Sales Tax and any adjusted excise duties, including the expected effects on consumer prices.

- **Design Tax Forms**

  -- Prepare a program for designing and printing sales tax forms and notices, to have them ready for issue at least 21 days prior to expected use. The implementation team should confirm that printing facilities and resources are available to meet the program deadline.

  -- Distribute publicity material (e.g. leaflets, press notices), explaining the system and its likely economic and revenue effects to newspapers, radio and television stations, and trade associations.

  -- Commence program for designing and printing General Sales Tax forms.

  -- Commence design of forms needed for reporting educational visits, including details of the registered persons' accounting system and changes made properly to account for the General Sales Tax.

  -- Commence preparation of an "Aide Memoire" for officers making educational visits.

- **Forms and Aide Memoire**

  -- Complete design of forms and Aide Memoire.

- **Publicity**

  -- Make preparations for general publicity campaign including the General Sales Tax Guide, information leaflets, and press releases.

- **Commence Public Education**

  -- Establish a special General Sales Tax unit in each Regional office to deal with all aspects of the General Sales Tax and to assist any Registrant or others who may make enquiries.

  -- Print a simple leaflet explaining the coverage and operation of the General Sales Tax for issue to inquirers.

- **Publicity**

  -- Commence publicity campaign to encourage enquiries and registration starting in October.

- **Registration**

  -- Conduct a publicity campaign emphasizing that all persons liable under the Act, including those currently registered for consumption tax, have to apply for registration if they exceed the turnover limit, with the final date for registration being the end of month 11, and encouraging enquiries at the local tax office in cases of doubt or concern.

- **Educational Visits**

  -- Commence educational visits by trained staff in Regional offices and sub-offices to persons registered to verify that the person is in possession of all relevant information and his invoicing and bookkeeping system are satisfactory for General Sales Tax purposes.

  -- Continue with educational visits to registered persons and others requesting a visit to check on accounting systems and records and to give assistance and advice.

- **Registration Final Date**

  -- Give wide publicity to requirements that last day for registration is at end of November.

- **Publicity**

  -- Continue publicity that new customs entry forms must be used for all customs entries form the first day of January 1991.

- **Claims for Relief from Consumption Tax on Stocks**

  -- Distribute to each Regional office sufficient forms for claiming stock relief for issue on request to registered applicants (if such relief is granted).

  -- Announce the scheme for claiming relief of Consumption Tax paid on goods in stock on the introduction date (if such relief is granted).

  -- Issue claim forms for relief on stock to registered persons only when registered (if such relief is granted).

- **Review the Program for Educational Visits**

  -- Review the progress in making educational visits and decide what action, if any, is needed to ensure that such visits are made to all registered persons within a short time span.

- **Publicity**

  -- Give wide publicity to returns being due on 25 of February and penalties and Additional Tax becoming payable if received after 25th. Anyone failing to receive a return form should obtain one from his Regional office.

GENERAL SALES TAX REGISTRATION AND IMPLEMENTATION

- **Office Accommodation, etc.**

  -- Confirm availability of office accommodation and furniture and equipment.

- **Implementation**

  -- Review all progress to date relative to the planned schedule and identify any delays, taking remedial action as necessary.

  -- Assess final needs for books, forms, notices, etc. for public and official use.

- **Design General Sales Tax Forms**

  -- Print the application form for registration , guide and the certificate of registration for General Sales Tax and related material.

  -- Review the customs entry forms to confirm that spaces are provided and adequate for the insertion of the General Sales Tax Registration No. (i.e., the Taxpayer Identification Number), where applicable, and the General Sales Tax payable.

  -- Design a scheme and print forms for registered persons to claim relief for any sales tax paid on goods actually held in stock on the day of introduction of the new tax (if such relief is allowed).

- **Application Forms**

  -- Commence the issue of General Sales Tax application forms and Guides to those on the list of potential Registrants.

  -- Distribute to Regional offices guides and blank application forms for issue to potentially registrable persons.

  -- Prepare to receive completed applications for registration.

- **General Sales Tax Forms**

  -- Finalize the design of the Sales Tax return form in agreement with the Computer Team.

- **Resource Requirements**

  -- Assess the likely long-term needs for personnel accommodation, equipment, etc. in Head office and in each Regional office.

- **Registration**

  -- Commence registration for General Sales Tax and have the computer print out the certificates of registration.

  -- Send the certificate, a copy of the General Sales tax Guide and any other notices relevant to the industry or business being registered under a cover of a form letter.

  -- Prepare a file for each Registered and enclose the related application form and correspondence, if any.

- **Implementation**

  -- Review progress made to date and take action to catch up on any arrears of work.

- **Registration**

  -- Continue with registration of late applicants without penalty.

  -- Evaluate progress of registration and consider need for special registration drive and more publicity in Regional areas where numbers of applications received are unsatisfactory.

  -- Commence visits to manufactures and others identified as potentially liable to General Sales Tax who have failed to apply for registration by the end of November.

- **Preparations for Collection and Returns**

  -- Prepare and print instructions to staff who will be receiving monthly returns and tax payments.

- **<u>Preparation for Verification</u>**

  -- Prepare and print instructions for staff who will be making visits to verify the monthly returns form registered persons.

- **<u>Review Preparations by Customs Administration</u>**

  -- Confirm that customs forms and procedures are ready for the introduction of General Sales Tax on imported goods on the first of January 1991.

  -- Publicize, particularly to importers and customs agents, that new customs entry forms must be used for all entries from the first of January.

- **<u>Registration</u>**

  -- Continue issuing registration certificates, General Sales Tax guide, form letters, etc.

- **<u>Introduce General Sales Tax</u>**

  -- The new General Sales Tax introduced from the first of January.

  -- Commence collection by the customs department of General Sales Tax on all direct importations and goods cleared from bonded warehouse on the first of January.

- **<u>General Sales Tax Return Processing</u>**

  -- Issue by 20th of month to all registered persons a General Sales Tax return form, showing their name, address, registration number tax period and due date, together with a public notice to assist them in completion of the form and warning them that late filling will involve the automatic payment of additional tax.

  -- Commence accounting for returns and General Sales Tax received from registered persons.

- **<u>Enforcement</u>**

  -- Use computer to prepare lists of those registered persons who have not made returns and issue reminder letters to them.

- Apply automatically Additional Tax to the amounts due from filers who have filed late and notify those concerned accordingly.
- Use computer to prepare lists of those registered persons who have made returns showing that General Sales Tax is due but have not paid the full amount of tax, issue form letters to them warning that recovery action will be taken and that Additional Tax will also be recovered.
- Plan making visits to those who have failed to file a return.

o <u>Internal Reporting Procedures</u>

- Design and print inter-office forms for internal use.

o <u>Verification Selection Criteria</u>

- Establish provisional criteria for selecting persons to be visited to verify their returns, temporarily giving high priority to those who have failed to make a return or have failed to pay the General Sales Tax due.

o <u>Enforcement Action</u>

- Establish assessment and distraint action against those who have failed to file a return or pay the General Sales Tax.

o <u>Terminate Educational Visits</u>

- Complete the program of educational visits for the initial registration campaign, as far as practicable, and review the results by staff already trained.

o <u>Verification Visits/Routine Control Audits</u>

- Establish criteria for selective verification visits and routine control audit.

GENERAL SALES TAX COMPUTERIZATION

- **Computerization Initial Section**

  -- Computer team to prepare an outline proposal for computerization of registration and collection procedures and complication of the Taxpayer Master File under a Taxpayer Identification Number.

  -- Preliminary estimates to be made of computer equipment and staffing requirements.

- **Finalize Plans for Computerization**

  -- Assess equipment needs.

  -- Assess staffing needs.

- **Taxpayer Identification Number (TIN)**

  -- Agree on construction and use of T.I.N.

- **Taxpayer Master File**

  -- Design file as basis of control system for registration, collection, verification and taxpayer information.

- **Technical Personnel**

  -- Confirm that sufficient programmers and systems analysts will be available to meet the requirements for computerization.

- **Computer Hardware and Software**

  -- complete installation and testing of data entry equipment.

- **Registration**

  -- Commence input of data on application form.

  -- Print out registration certificates.

- **Registration**

  -- Continue data entry input of application form.

  -- Print out registration certificate.

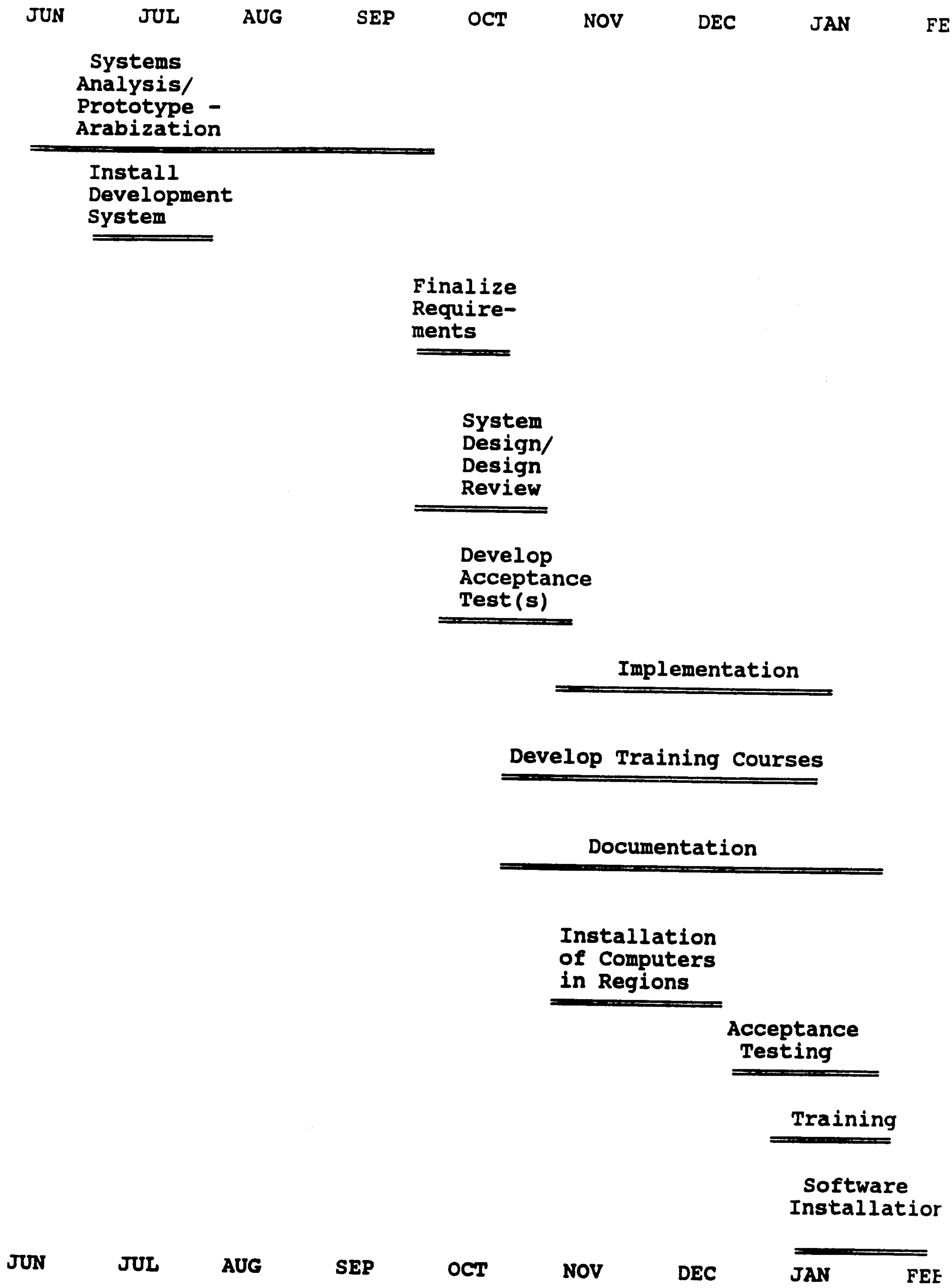
- **Collection**

  -- Test computer system for return collection procedures and rectify faults.

  -- Provide program for reconciliation of the amounts of tax due on returns with the amounts received.

- **Computerization**

  -- Prepare alpha and numeric computer listings of persons registered for use in verifying the registration of businesses. This information should also be provided to the collection section in each Regional office for use in enforcement and with copies being sent to the Head office.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Develop Acceptance Test(s)
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Develop Training Courses
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Installation of Computers in Regions
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A. Administration and Training :

(1) Decide on organizational structure
(2) Appoint senior managers
(3) Appoint "core" staff
(4) Train core staff
(5) Draft in full staff
(6) Train Staff
(7) Initiate registration
(8) Prepare for collection
(9) Collect Tax

B. Forms, Procedures and Computerization

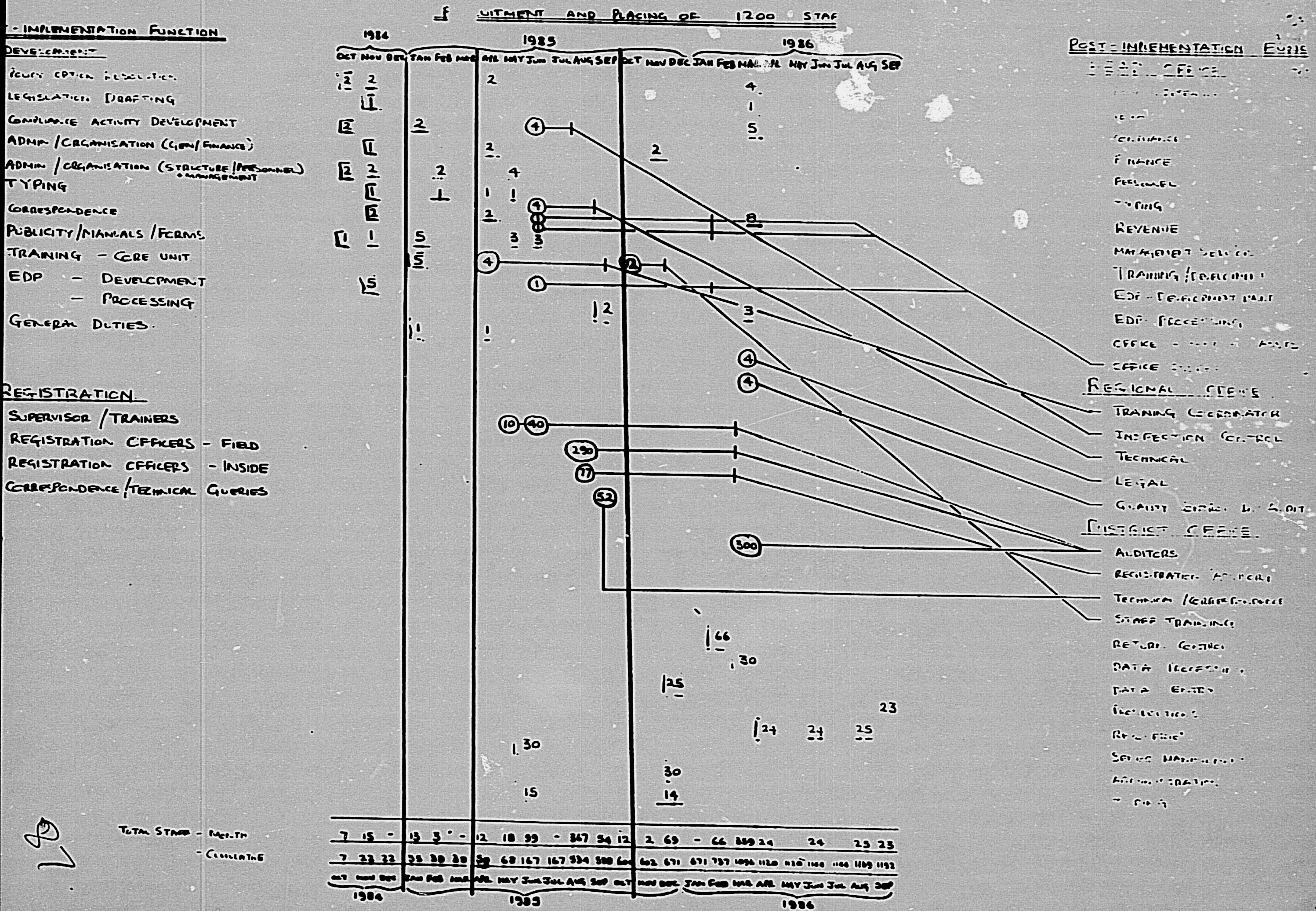
(1) Design "system" (including TIN)
(2) Develop forms, reports, procedures, etc.
(3) Acquire hardware
(4) Train operators
(5) Test system
(6) Registration process
(7) Collection process

C. Taxpayer Education and Publicity

(1) Prepare general explanatory material
(2) Prepare industry - specific material
(3) Hold seminars, discussions
(4) Visits to tax payers, once registered
(5) Set up tax payer, information system

D. Research and Statistics

(1) Develop registration base
(2) Develop MIS
(3) Monitor registration process
(4) Initiative follow-up
(5) Develop "norms" to monitor collections
(6) Initiate MIS re delinquency, suspect cases, etc..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ADMIN / ORGANISATION (GEN/ FINANCE)
ADMIN / ORGANISATION (STRUCTURE / PERSONNEL + MANAGEMENT)
TYPING
CORRESPONDENCE
PUBLICITY / MANUALS / FORMS
TRAINING - CORE UNIT
EDP - DEVELOPMENT
- PROCESSING
GENERAL DUTIES
REGISTRATION
SUPERVISOR / TRAINERS
REGISTRATION OFFICERS - FIELD
REGISTRATION OFFICERS - INSIDE
CORRESPONDENCE / TECHNICAL QUERIES
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FINANCE
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TOTAL STAFF - MONTH
- CUMULATIVE
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