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USAID SUPPORT FOR RAISING TAX REVENUES  
THROUGH THE MINISTRY OF FINANCE IN EGYPT

WILLIAM F. FOX

METROPOLITAN STUDIES PROGRAM  
THE MAXWELL SCHOOL OF CITIZENSHIP AND PUBLIC AFFAIRS  
SYRACUSE UNIVERSITY  
SYRACUSE, NEW YORK 13244-1090

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LOCAL REVENUE ADMINISTRATION PROJECT

Larry Schroeder (Public Administration & Economics) Director

SENIOR RESEARCH ASSOCIATES

Roy Bahl	Economics	Jerry Miner	Economics
David Greytak	Economics	Barbara Miller	Anthropology
Steve Haggblade	Public Admin.	Bruce Riddle	Data Analyst
Bernard Jump, Jr.	Public Admin.	David Robinson	Geography
William Mangin	Anthropology	Michael Wasylenko	Economics

GRADUATE RESEARCH ASSOCIATES AND ASSISTANTS

Douglas Amissah	Public Admin.	Rita Hilton	Econ./Pub. Admin.
Douglas Benedict	Economics	Haeduck Lee	Economics
Robert Carroll	Economics	Victor Mendez	Economics
Libby Dalton	Public Admin.	Vijay Rao	Public Admin.
Hernando Garzon	Social Science	Christopher Schwabe	Economics
Lauria Grant	Economics	James Wozny	Economics

CONSULTANTS

James Alm	University of Colorado, Tax Policy
Oakley Austin	Private Consultant, Customs Administration
Richard Bird	University of Toronto, Tax Policy
John Due	University of Illinois, Tax Policy
Carolyn Fawcett	Georgetown University, Public Administration
James Follain	University of Illinois, Tax Policy
William Fox	University of Tennessee-Knoxville, Tax Policy
Francisco Gonzalez	Private Consultant, Customs Administration
Daniel Holland	M.I.T., Tax Policy
Jorge Martinez	Georgia State University, Economics
Charles McLure	Hoover Institute, Tax Policy
Oliver Oldman	Harvard Law School, Tax Administration
Alek Rozental	Private Consultant, Tax Policy
Kenneth Stacey	Private Consultant, Customs Administration

## TABLE OF CONTENTS

	<u>Page No.</u>
Introduction	1
Recent Experience with USAID Financed Tax Assistance	3
A. Tax Administration Project	3
1. Training	4
2. Computerization within the Tax Department	5
3. Technical Assistance: Collections	6
4. Technical Assistance: Examinations	7
5. Results and Constraints	8
B. Tax Modernization Project	11
Egyptian Tax Environment	11
A. Organizational Structure for Tax Collections	12
B. Data Sources for Tax Revenues	19
Recommendations for Future Tax Administration Assistance	20
A. Special Tax Activities	22
B. Continuation of Support for the ITD	24
1. Tax Training	24
2. ADP Sector	25
3. Collections and Examinations	26
C. Customs Tax Department	27
D. Level of Support	28

## LIST OF TABLES

<u>No.</u>	<u>Title</u>	<u>Page No.</u>
1	INTERVIEWEES	2
2	MINISTRY OF FINANCE TAX COLLECTIONS	13
3	MINISTRY OF FINANCE TAXES AS A PERCENT OF GROSS DOMESTIC PRODUCT	14

USAID Support for Raising Tax Revenues Through the Ministry  
of Finance in Egypt

by

William F. Fox  
Department of Economics  
University of Tennessee, Knoxville

Introduction

USAID has had a long history of providing tax administration support to the Ministry of Finance's Income Tax Department (ITD) through technical assistance offered by the US Internal Revenue Service (IRS). The request for support was initiated by Minister of Finance Mr. Ahmed Abou Ismail in 1974 and the first IRS team came to Egypt in 1975 in order to identify ways in which IRS and the ITD could cooperate. Technical assistance was provided in a variety of ways until 1980 when the formal Tax Administration Project (TAP) began. Support for development of tax revenues was also provided by USAID through the Tax Modernization Project (TMP) which was begun in 1981, and led to a series of reports on income tax reform in 1984 and 1985.

The purposes of this paper are to review experience with TAP and make recommendations on the future direction for USAID assistance for tax administration in Egypt. The report is based on discussions with officials in the Ministry of Finance, USAID, IRS and representatives from the private sector (see Table 1). Many of the ideas presented in this report were gleaned from discussions with these individuals. Project documents, reports available from other sources, and internal Ministry of Finance data were also reviewed.

Table 1  
Interviewees

Ministry of Finance

Dr. Mohamed Ahmed El-Razzaz, Minister of Finance  
Mr. Mahmoud Hassan Said, Chief of Income Taxation Department  
Mr. Fathy Salama, Chief of Customs Taxation Department  
Mr. Fawzy Moharram, Deputy Chief of Excise Taxation  
Department  
Mr. Saad KARoush, Chief of Real Property Taxation Department  
Mr. Sayed Abdel Meguid, Undersecretary, Compliance Sector,  
Income Taxation Department  
Mr. Mohamed Gamal El-Din Gamgoum, Chief ADP Sector, Income  
Tax Department  
Mr. Fakhel El-Din Kamel, Chief Tax Training Institute,  
Income Tax Department

USAID

Mr. G. Reginald Van Raalte, Associate Director, Industry and  
Support  
Dr. Paul O'Farrell, Economic Development Officer  
Mr. George Flores, Office Director, Industry and Trade  
Mr. Richard Silc, Project Officer

IRS

Mr. Robert Warfield  
Mr. Robert Uhar  
Mr. Mohamed El-Nouby

Private Sector

Mr. Ahmed Shawky, Arthur Anderson  
Mr. Mac Gayjack, Arthur Anderson  
Mr. Shafik Gabr, Artoc Suez  
Mr. Ahmed Abd el Azim, Artoc Suez  
Mr. Ibrahim Salam, Artoc Suez

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The report is organized in three sections, following this introduction. The first will be a discussion of recent IRS experience with the TAP. A brief discussion of TMP will also be included. The second will be a discussion of the Egyptian tax environment including how the Ministry of Finance tax departments are organized, how the departments interrelate, and recent actual collection experiences. The third section will be recommendations for future assistance for tax administration within the Ministry of Finance.

#### Recent Experience with USAID Financed Tax Assistance

This section is divided into consideration of the TAP and the TMP. Consideration of experience with TAP is focused on the time period since 1983 because a project evaluation was conducted in that year. Only a brief discussion of the TMP is included, as careful consideration of that project was outside the scope of work for this review.

##### A. Tax Administration Project

The goal for TAP is to increase the mobilization of domestic resources for development, with secondary goals being to improve taxpayer equity and to enhance efficiency within the ITD. Four specific interventions were anticipated in order to achieve the intended objectives: reorganizing the ITD, development of a tax training function, computerization of tax functions, and streamlining collections and examinations functions. Each of these will be described in some detail with the exception of the reorganization. There has been little movement on reorganization since the 1983 evaluation, so there is little to add to the conclusions reached at that time. Finally, this section will conclude with comments on the overall achievements of the project and the constraints which are inhibiting success.

## 1. Training

TAP has been most successful in assisting development of an effective training function. A Tax Training Institute (TTI) has been established in Zeitoun and is now conducting more than 100 courses per year. Departmental training has shifted from guest lecturers discussing topics of their choosing, to prepared trainers teaching unified materials. More than 120 trainers have been developed with skills in areas such as how to prepare training materials and how to work with trainees. The TTI has been equipped with audio-visual equipment and other devices for enhancing the training experience.

Regional TTIs have been located at Alexandria, Tanta, and Ismailia. Additional regional training centers are anticipated for other cities, including Aswan, Beni Suef, and Luxor. The regional sites are imperative because the Zeitoun location is too distant for many people to attend training, and inadequate housing is available for people to stay at the site. Further, it would generally be difficult for women to stay at the site and be trained, even if sufficient housing were provided. A final benefit of the regional sites is that they expand the training capacity.

Specific inputs have included long term and TDY advisors provided through the US Internal Revenue Service (IRS) to assist in development of course materials, to help choose sites, and to procure equipment. US based training through the IRS INTAX program and observational trips have been used to illustrate certain concepts in practice and to generate support for technical assistance within Egypt. The mid-manager INTAX course has now been developed for use by the TTI in Egypt and plans are to prepare the executive program for use in country as well.

## 2. Computerization within the Tax Department

An automated data processing unit (ADP) has been established and is operating within the ITD. Thirty-two data entry machines have been installed and are being used to input tax data. Form 40 data (used to record withholding of taxes when certain sales and purchases take place) have been input for 1982-1984 and are currently being input for 1985. Data also are being input from taxcards. The computerized data are being used to prepare a list of taxpayers, to alphabetize the taxpayer list, and to assist in auditing taxpayers.

Progress with development of the ADP unit has been slow. Inability to obtain sufficient processing time has been one reason. For some years there have been plans to acquire a mainframe computer. However, the necessary first step has been to identify and prepare a site to house the computer. Site preparation is to be financed and coordinated within the Ministry of Finance. A site selection committee first met on August 30, 1984 and the Ministry has yet to seek bids for preparation of the sites. As the process has moved slowly, funds for the hardware purchase, to be provided through the Commodity Import Program, have been allocated and recalled several times. Funds for site preparation have been made available in this year's Ministry budget, and a request for bids is expected to be issued on February 21, 1987. The mainframe will be ordered when the site is 80 percent complete.

New data entry equipment is also expected as part of the hardware acquisition, and sites must be prepared in Tanta and Ismailia for the data entry equipment. Sites are also planned for data entry equipment to be located in Giza and Alexandria, though no site has been identified in Giza and the Alexandria site is deemed to be inadequate.

Preparation of the sites, location of the mainframe computer and data entry equipment, and making the system operable could take two years, even under an optimistic scenario. This does not include location of equipment in the places where sites have not as yet been identified. A positive aspect from moving slowly arises because there is a desire by ITD officials to move with studied steps so that the computer resource is used effectively. The slow movement allows careful consideration of what data are to be input and how files will be structured.

Problems which are more technical and less managerial are likely to confront the ADP unit over the next several years and these will lead to slower progress than the ITD anticipates. First, operation of the mainframe will create unanticipated difficulties. Decentralization of computer facilities arising from location of data entry equipment outside Cairo and minicomputers (or personal computers) at the regional training institutes will cause further technical problems. Finally, a desire to pass data across the various tax departments will introduce a third set of technical difficulties. The ITD appears to underestimate the difficulties that the new technology will entail. The number of people necessary to achieve all of the desired changes also appears to be understated.

### 3. Technical Assistance: Collections

A pilot program to enhance collections procedures had recently been introduced at the time of the 1983 evaluation. The approach offered the prospect of enhancing revenue collections and increasing collection efficiency. The procedures reduced the number of forms and ledgers being used. A new process for collecting taxes was established with a

series of steps including sending letters to taxpayers informing them that a field collections official would be contacting them to arrange payment.

From the beginning, management support within the ITD was limited at best. Appropriate personnel, such as regional collections analysts and a counterpart for the IRS collections advisor, were not appointed in a timely fashion. Experience with the procedures appears to indicate some increased efficiency as forms were eliminated. Otherwise the program was less successful. A number of needed modifications were identified by the ITD and this seems to have reduced confidence in the technical assistance. A major problem was that letters sent prior to a visit by a collections official led people to hide their assets. This made collection more difficult. Numerous complaints were lodged within the ITD because collections agents did not understand the new procedures and this also caused concern about the value of the technical assistance. Better training of collections staff may have been sufficient to overcome many of the reasons for complaints.

A basic conclusion of senior ITD officials is that technical assistance is frequently provided by advisors who have an insufficient understanding of the differences between operating in the US and Egyptian contexts. This is probably a fair criticism of many TDY advisors. Problems with the techniques and the resulting loss of faith in the approach appears to have eroded management support even more.

#### 4. Technical Assistance: Examinations

One conclusion of the 1983 evaluation was that examinations was a poor focal point for IRS technical assistance because the Egyptian policy of examining all returns was inconsistent with the types of procedures

which IRS was proposing. IRS shifted its focus away from examinations over the next several years. The lack of success in collections has led IRS to pursue the examinations area once again.

The current IRS approach is to run a pilot program using three new forms. The forms obtain information on time and attendance and examinations results. The data from these forms will be analyzed by IRS staff and used for purposes such as demonstrating the advantages of using a prioritized audit system and the revenue gains from imposing penalties on incorrect filers. The pilot effort appears to be a wise course of action because it is designed to build a good case for any future action. The pilot can be extended to other tax districts, once broad support for its advantages has been obtained.

The examinations pilot has three potential drawbacks. First, the ITD chief does not support the pilot. He indicated that the pilot system is advanced and far ahead of the Egyptian system. Second, the approach is very long term. The TDY effort which developed the examinations pilot anticipated that two to three years would be necessary to collect sufficient data and propose effective and appropriate expansions of the pilot to other areas. The current long term examinations advisor plans to have an analysis of this data available by the end of his tour, in September 1988. Finally, the maamours (tax collection agents) filing the forms may choose to fabricate the data. The value and acceptance of the results depends on the actual and perceived quality of the data.

## 5. Results and Constraints

It is difficult to identify a specific linkage between project goals and the successes to date. A very careful effort would be necessary to estimate what revenues would have been in the absence of TAP. Further,

the input is relatively small compared to a Department which has 17,000 employees and raises more than LE 2.0 billion per year.

Achievements under TAP have been concentrated in the peripheral areas of training and ADP, but there have been lengthy delays in every aspect of the project. Little success can be attributed to the more traditional areas of collections and examinations. Some of the reorganization which was proposed during preproject activities was implemented in 1978, prior to the project, and only limited changes have occurred in the interim. Two achievements were the increase in stature of the Tax Training Institute and ADP unit to sectors within the ITD. There are no near term plans for further reorganization (e.g., moving to geographic rather than functional tax collection and examination offices).

The project is an institution building effort and such activities are long term in nature. Thus, the failure to see short term results in some areas does not mean TAP technical assistance in the examinations and collections areas has been unsuccessful. Many middle management people have been trained and exposed to new concepts and this could have the effect of changing the way the ITD operates over many years into the future.

Several constraints to past and future operation can be identified. The first is that the most important impediments to revenue mobilization appear to be policies towards taxation rather than the administrative procedures which the project is intended to improve. For example, failure to impose penalties for nonfilers or incorrect filers makes it much more difficult to establish effective collections procedures. Law 30, which permits taxpayers to withhold some payments until all appeals through the courts are exhausted has led to many inappropriate court challenges

and has slowed collections. Enhancement of administrative procedures will be significantly facilitated by policy changes in these and numerous other areas.

Changes in policies must be undertaken with careful consideration to the way ITD operates. For example, private sector individuals state that in some cases maamors purposely overstate tax liabilities because they feel that their superiors expect it of them. The maamors realize that the taxes will be reduced during the appeals process, so they are unconcerned about overstating tax liabilities. Thus, a simple change requiring taxpayers to pay their tax liability before the appeals process may lead to very unfair treatment of taxpayers.

A second constraint is that significant turnover has occurred in the people involved in TAP. The eight most senior members of the ITD who were interviewed during the 1983 evaluation are gone. Most of them have probably retired. The IRS advisors and AID project officer have also left their Egypt assignment. The turnover makes it difficult to maintain continuity of effort. Much of the training, both in Egypt and the US has been for mid-management level people, so the shifting of senior staff has not been as harmful as it would appear. On the other hand, there is a tendency for people to leave the government after they receive training. So many of those trained at the middle level, such as computer programmers, may also have left after being trained.

Third, many of the recommendations in examinations and collections have traditionally been made by TDY advisors. This has led to dissatisfaction within the ITD because officials feel that technical assistance is being provided by people with an insufficient understanding of differences between collecting taxes in Egypt and the US.

Finally, support for the technical assistance in collections and examinations has been too limited to permit success. Numerous incidents of weak support have been identified by IRS staff. For example, concern over lack of support was strongly expressed in an April, 1985 internal IRS review of TAP. Some of this likely reflects a hesitancy of senior managers within the ITD to accept change.

#### B. Tax Modernization Project

The intent of this section is only to mention the existence of the TMP. A careful review of this project was not possible within the available time frame. TMP was designed to recommend legal changes in the Egyptian income tax law as the TAP recommended administrative changes. Both projects were initially coordinated through now Prime Minister, Dr. Atef Sedky. The project was performed by members of the Cairo University College of Law and several US based consultants.

A major proposal of the TMP was that the Egyptian income tax needed to be restructured as a global income tax system. Numerous reports were issued including "The General Philosophy of the Income Tax Bill," a "Draft Law of Income Taxes," and special subproject evaluations of individual issues such as the, "Agricultural Income Tax Modernization Report."

#### Egyptian Tax Environment

This section will be a brief discussion of Ministry of Finance tax collection functions and recent experience with actual tax collections. The Ministry of Finance is not responsible for collecting all taxes and revenues for the government, as about five percent of tax collections come from outside the ministry. The role of other ministries in collecting revenues is not considered here.

#### A. Organizational Structure for Tax Collections

Tax collection activities within the Ministry of Finance are conducted through four operating departments: the Income Tax Department, the Customs Tax Department, the Excise Tax Department, and the Real Estate Tax Department. These Departments raised a combined LE 6.2 billion in 1985/86, based on records provided by the Departments (Table 2).

The collection of taxes has grown slowly compared to economic indicators in recent years. Once adjusted for inflation there was zero revenue growth in 1982/83 and there were declines in 1983/84 through 1985/86. Revenues declined from 23.5 percent of GDP in 1981/82 to 17.1 percent in 1985/86 (Table 3). Calculations of this type must be seen only as indicative of revenue performance, because there is evidence that inflation has been understated and real economic growth overstated during these years. The response of tax revenues to recent economic trends would appear even worse to the extent that these observations regarding economic statistics are true.

The Income Tax Department has been the situs of TAP. This Department is responsible for collecting the personal and corporate income taxes, the inheritance tax, and the stamp duties. This represents the largest Department in terms of employees (about 17,000) and revenues, as it was responsible for LE 2.8 billion in 1985/86. The revenues represent approximately 46 percent of total Ministry of Finance tax collections, down from 49 percent four years earlier. The relative decline indicates that ITD revenues have expanded more slowly than average revenue growth in recent years.

A significant part of ITD's revenues are obtained from public sector enterprises. Approximately 58.2 percent of corporate profits revenues are derived from public sector enterprises. The Suez Canal

Table 2  
Ministry of Finance Tax Collections  
(LE Millions)

	<u>Income Tax Department</u>		<u>Customs Tax Department</u>	<u>Excise Tax Department</u>	<u>Property Tax Department</u>	<u>Total</u>	<u>Annual Growth Rate (Percent)</u>	<u>Inflation Adjusted Growth Rate (Percent)</u>
	<u>Total</u>	<u>Public Sector Income Taxes</u>						
1980/81	1720.0	1033.0	NA	NA	NA	NA		
1981/82	2320.7	967.3	1573.2	812.7	69.3	4775.9		
1982/83	2305.2	967.3	1644.2	1196.8	53.2	5199.5	8.9	0.0
1983/84	1997.1	723.6	1920.2	1302.1	54.1	5273.5	1.4	-9.8
1984/85	2352.4	1047.5	1906.6	1443.2	53.6	5755.7	9.1	-3.2
1985/86	2812.1	1161.7	1796.1	1489.2	54.5	6151.8	6.9	-4.0

NA = not available.

Table 3  
Ministry of Finance Taxes as a Percent  
of Gross Domestic Product  
(Percent)

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	<u>Income Tax Department</u>	<u>Custom Tax Department</u>	<u>Excise Tax Department</u>	<u>Property Tax Department</u>	<u>Total</u>
1981/82	11.4	7.8	4.0	0.3	23.5
1982/83	9.3	6.6	4.8	0.2	21.0
1983/84	7.2	6.9	4.6	0.2	18.9
1984/85	7.2	5.9	4.4	0.2	17.7
1985/86	7.8	5.0	4.1	0.2	17.1

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Authority and the Egyptian General Petroleum Company alone are responsible for 32.5 percent of total corporate profits revenues. A slowdown in revenues received from EGPC and the Suez Canal Authority is responsible for much of the weakness in ITD collection growth.

Much concern exists both in the Ministry and in the private sector about how income taxes are levied and administered. Private sector individuals feel that tax rates are so high that they strongly encourage tax avoidance. Some feel that existing marginal tax rates are confiscatory for higher income taxpayers. In many cases the collection process has degenerated into a negotiated settlement between the taxpayer, tax agent, and the court system. A distrust of each other has developed over the years, such that negotiations begin from a perspective that each is seeking to take advantage of the other. Both taxpayers and collectors seem to be seeking a tax system which allows easy determination of tax liabilities and low cost administration.

The Customs Tax Department (CTD) collects the duties on imports and exports and the excise tax payments which are incident on imports. Excise taxes on imports, though initially collected by the CTD, are categorized in the Excise Tax Department. The CTD raises the second largest amount of revenues, LE 1.8 billion in 1985/86, and has approximately 15,000 employees. The percentage of Ministry of Finance revenues collected by the CTD declined from 33 to 29 percent over the last five years. The decline was concentrated in the last two years, as the tightness in foreign exchange reduced imports.

A major reform in customs tariffs was introduced in August 1986 and was approved by the People's Assembly on January 25, 1987. One change was to adjust the official rate for valuing imports from LE0.7=\$1.0 to LE1.35=\$1.0. Many import tax rates were reduced at the same time to maintain approximately the same effective tax rate relative to the value of imported goods. Actually, since rates were frequently cut in half and the exchange rate was not doubled, there was a small decrease in the effective rate for these goods. A number of surtaxes on imports were eliminated, such as the one designed for local governments. Customs duties were imposed on many formerly exempt items. Reduction in exemptions is expected to generate noticeably more revenues. Finally, a requirement to make deposits on potential tax liabilities was introduced for items which are expected to be reexported. This will have the effect of causing a one-time increase in revenues.

The Ministry of Economy banned a number of items from import including automobiles, alcoholic beverages, and many raw and processed food products as the customs reforms were introduced. In many cases there may still be ways to import the banned goods because there are exemptions. For example, individuals are still permitted to import automobiles.

Customs tax duties averaged 39.0 percent more in September through December, 1986 (after reform), compared with July and August of 1986 (before reform). But, this may be normal seasonal variation. Overall, collections were 7.3 percent higher in the first two quarters of 1986/87 compared with the same quarters of the previous year.

The Excise Tax Department (ETD) collects excise taxes, which are specific consumption taxes that are due when goods are transferred from the producer to the retailer or when goods are imported. Officials in the ETD believe the tax is incident on consumers, though it is legally incident on producers. Excise taxes are levied on approximately 150 items. In about 65 cases the excise tax is only incident on imports and in about 12 cases it is only incident on domestic goods. Nearly one-fourth of revenues are collected on petroleum products and almost one-tenth from soft drinks. Taxes on sugar and tea are the other large revenue sources. Taxes on 33 items raise less than LE 100,000 each.

Approximately 4000 people work in the ETD. The Department raised LE 1.5 billion in 1985/86. The percentage of total Ministry of Finance revenues generated by the ETD rose from 17 percent to 24 percent over the last five years because items have been added to the base. This offsets the relative reduction in ITD and CTD collections. Revenue growth was very slow in 1985/86, probably a reflection of tight foreign exchange and the resulting slowdown in imports.

Much of the tax is collected from public sector companies. A system which collects from producers, most of which are public sector companies, should have the effect of lowering administrative costs. Further, representatives of the ETD obtain excise tax revenues from the CTD for imported goods. This should lower administrative expenses more. However, the taxes which are due are collected every ten days from each firm, plus there is a month ending clearing of the tax liability. The numerous contacts with firms increases administrative costs.

Some excise tax rate adjustments were imposed in April 1986, and others were enacted in August when the customs tax reform occurred. Several general trends emerge from the excise changes. First, there is a tendency towards ad valorem, and away from unit tax rates. Second, many rates were reduced on imported goods to reflect the increase in the exchange rate which is used to value goods. Finally, there was generally a tendency to increase rates, particularly on luxury commodities.

The Real Estate Tax Department collects the agricultural land tax, the buildings tax, and the undeveloped land (in cities) tax. Many exemptions are provided, resulting in low tax collections. Collections totalled only LE 54.5 million in 1985/86 for the entire country and this includes LE 11.2 million paid to the Central Government which likely represent old liabilities. Examples of the exemptions include, only buildings in cities are taxed, all "ordinary" housing built since 1977 is exempt (about 95 percent of the total), and individuals owning less than three feddans of agricultural land are exempt from the agricultural land tax. Further, taxes are imposed on the rental value of land and rent controls keep the values very low. Finally, reappraisal occurs every ten years and the next is expected in 1989.

The TMP reported that property taxes on agricultural land decreased dramatically between 1961 and 1978. In the interim a number of surtaxes have been eliminated which combined with the other underlying changes should have reduced the relative burden of agricultural land taxes further.

There are limited interactions between the various Departments in the Ministry. An obvious one is the CTD collects excise taxes for

imported goods and then provides the records and revenues to the ETD. Another is that the CTD provides a form to the ITD for every item which is imported. However, no consistent taxpayer numbers exists across the Departments (in fact, most Departments do not use taxpayer numbers) and there is no efficient mechanism for passing the information about taxpayers across the Departments. There is an understanding of the need for increased coordination across Tax Departments as this issue was raised by the Undersecretary in charge of each Department.

One of the greatest needs within the Ministry is for a coordinated management information system which would facilitate coordination between the Departments. No system of this type exists today. The Departments on both the revenue and expenditure sides of the budget should be included in such a system. Development of the system will require coordination of the activities of each Department, and will entail significant technical assistance and commodity support. Procedures will need to be consistent such that taxpayer numbers, budget codes, and so forth are consistent across the Ministry.

There is also need to enhance communication within Departments and between each Department and the respective taxpayers. Numerous incidents were reported where senior officials were unable to communicate policies to tax agents. This is then reflected in poor communication of policy between the Departments and taxpayers. Different views of tax policy were expressed by private sector and Ministry representatives.

#### B. Data Sources for Tax Revenues

There are no regularly published data on tax collections in Egypt. Budgeted collections can be obtained through the National Budget, but

this source does not present actual collections. Budget estimates generally appear to be optimistic. The International Monetary Fund (IMF) prepares limited-circulation documents which provide data on actual collections. Information on actual collections for this report was also obtained from the operating Departments. There are some differences between the IMF and Departments' data but there was insufficient time to determine why the differences arise.

#### Recommendations for Future Tax Administration Assistance

Several important reasons exist for a new, and broader project to assist tax administration. First, the combined GOE budget deficit has been over 19 percent of GDP in each year since 1981/82. Even though this includes both the current and capital deficit, it represents a sizeable burden on the economy. A combination of expenditure cuts and greater resource mobilization is necessary to reduce the deficit to reasonable proportions. An improved tax structure and enhanced administrative techniques are necessary if more revenues are to be mobilized.

Second, inefficient administrative techniques result in inequitable treatment of taxpayers. Individuals with equal ability to pay taxes will pay different amounts because the administration is weak. Low income people and public sector employees are likely to pay taxes because they are taxed more easily by the personal income and consumption taxes.

Finally, administrative costs for tax collection, which are a loss to the economy, can be reduced through streamlined procedures. Concerns with very inefficient administrative procedures were expressed in each of the Departments. The visit which served as the basis for this report

was not the appropriate opportunity to identify specific areas where procedures could be simplified. But it is obvious that some administrative methods have been developed over many years and streamlined procedures could be introduced.

Success in the project will benefit employees of the Ministry of Finance by allowing them to administer tax structures which are better designed while using techniques which are more efficient. This will lead to improved equity among taxpayers and therefore greater satisfaction. Improved economic efficiency will result as taxes become a lesser distortion in decisions and the budget deficit is a smaller burden on the economy.

Three general areas of support are proposed for the Ministry of Finance. One is continuation of activities in the ITD. Second, is broad based assistance for the CTD. Finally, an activity to support tax administration across the Ministry of Finance is proposed. The latter is called Special Tax Activities.

The project activities involve seeking to change existing institutions and tax structures. Technical assistance for this type of change will only be effective to the extent that it is supported by senior officials in the Ministry. Minister Razazz appears to be very supportive. Leadership changes or other reasons for reductions in support are a risk to project success.

One important concern is that technical assistance be coordinated across the three activities. The benefits of coordination are obvious in areas such as exchange of information across the Ministry and identification of taxpayers. A coordinated effort will require careful

structuring in terms of the counterparts within the Ministry and the technical assistance groups. Given the current staffing pattern in the Ministry it appears appropriate for the Minister to be the counterpart for the Special Tax Activities component. All technical assistance activities would be coordinated through the Special Tax Activities. The following is a description of the general characteristics of each component of the project.

#### A. Special Tax Activities

This part of the project would entail a number of components. First, the most effective mechanisms for assisting the Excise Tax and Real Estate Tax Departments would be identified. More limited assistance for these Departments is anticipated than for the Customs and Income Tax areas. One reason is that they generate much less money. In particular, the revenues raised in the Real Estate Department are so small that broad based assistance only becomes an effective mechanism for generating revenues after a decision is made within the GOE to use the tax in a dramatically more intensive fashion. Also, the Excise Tax Department is likely to have fewer technical problems than the other large departments because much of its revenues are actually collected by the Customs Tax Department. Further, it is able to collect the majority of its other revenues through public sector companies.

Second, the Special Tax Activities would help identify areas where tax restructuring should be considered. Restructuring may be appropriate because existing taxes are inequitable, difficult to enforce, or alter economically efficient behavior. It would determine areas in the tax structure which are impeding proper administration of taxes and

collection of revenues. A series of intensive studies on individual taxes or components of individual taxes is anticipated. The specific areas for work would be identified jointly by the Minister of Finance and the leader of the Special Tax Activities. Every proposed or existing tax in the Ministry would be considered for examination. The analysis would build upon work undertaken by TMP in the income tax area. Analysis would be undertaken jointly by TDY US tax experts and representatives of an Egyptian University, such as Cairo University. This approach will permit participation by top international public finance experts. Findings in the Special Tax area of the project may change the type of technical assistance which is appropriate in other areas of the project.

Third, a Management Information System (MIS) for the Ministry would be developed. The system would include relevant information from both the revenue and expenditure sides of the budget and the information would be available to the Minister and each Department. Technical assistance to design the MIS and plan computer hardware will be needed to undertake this activity. Procurement of the hardware will also be necessary. The system will help the Ministry coordinate its activities, plan and budget, and forecast and track the receipt of revenues. The result will be a much more effective process for sound fiscal control.

The components described above evidence that this part of the project must be concerned with the work in each Tax Department. The breadth of the Special Tax Activities makes it the natural place for coordinating technical assistance provided under each aspect of the project. The team leader should also have the Minister of Finance as his counterpart. The functions of each activity of the project should be coordinated through the team leader of the Special Tax Activities.

The team leader should also take responsibility for reporting to USAID on overall project results and concerns.

B. "Continuation of Support for the ITD

Experience with the TAP was described above. Generally the experience has been successful in helping institutionalize the Tax Training Institute and create an ADP Sector. Progress in examinations and collections has occurred but the movement has been slower. Continued assistance for the ITD remains appropriate to build on past investments. One reason is that there remain many areas where assistance can prove an important factor in building an effective ITD. Also, the Minister of Finance, Dr. Razazz, is very supportive of continuing the activity. This means the probability for successful outcomes from the technical assistance is greatly enhanced. The proposal is to build on the strengths of previous efforts in the following ways:

1. Tax Training

The major need in tax training is to equip the regional TTIs, including provision of audio-visual equipment and personal computers. The equipment is important in order to enhance the training experience and to insure that training is provided in a consistent fashion across the country.

Lists of needed equipment have already been developed by the TTI director and the IRS team leader. Thus, acquisition can take place promptly once the funds have been allocated. The equipment is already needed at several of the regional TTIs and the equipment should be provided at the earliest possible opportunity in order to prevent impeding development of the regional TTIs.

The project should continue to provide training through observational visits to the US, external training programs, and other carefully selected out-of-country conferences. The IRS long term advisors can recommend and arrange these activities.

Technical assistance needs for training are likely to be lower than the experience under TAP. Perhaps the major role for the existing IRS long term advisors will be serving as an outside stimulus for rapid progress. They also can continue to play a role in helping identify appropriate sites for additional regional TTIs and in ordering the equipment. TDY assistance may be necessary in selected areas, such as developing an Executive INTAX course.

## 2. ADP Sector

The ADP Sector is in a period of transition with the expected acquisition of the mainframe computer. Running the new system and preparing it for decentralized operations will entail problems which have not been anticipated. Further, the availability of the processor will permit the sector to undertake new areas for data analysis and this will place new burdens on the ADP Sector.

The transitions will make several types of project assistance appropriate. First, technical assistance will be necessary to help sector employees develop the skills and experience necessary to operate the mainframe. Development of the ADP Sector remains a learning experience for the AFD and technical assistance can facilitate rapid advancement. Presumably this assistance can be provided in Egypt through the computer's supplier or through a special technical assistance contract. The assistance will likely require significant input which must be

consistently provided over a sustained time period. Technical assistance will also be necessary to assist in selection of the data to be analyzed and in development of carefully designed data bases. An IRS or other international contractor may be necessary for this activity. TDY assistance will likely be sufficient for the task. TDY support may also be appropriate for computerizing activities which develop through other aspects of the project, such as in collections and examinations.

Technical assistance is expected to help the ADP sector become increasingly sensitive to the needs of taxpayers and tax collection agents. Specifically, assistance will help develop data bases and prepare reports with information which is most useful to the agents.

Acquisition of additional equipment is also expected for the ADP sector. Needs will become apparent as further progress is made in computerizing the ITD. One area where equipment needs can be anticipated is movement towards coordinating data across Tax Departments. Also, personal computers may be identified as appropriate for some of the processing needs as further development occurs.

### 3. Collections and Examinations

A number of aspects of collections and examinations have been identified for streamlined and improved procedures. Progress in institutionalizing these changes has been slow. IRS long-term advisors have backed away from technical assistance for collections because of the lack of achievements. The pilot study for examinations is an attempt to develop data which could be used to support proposed improvements in the examinations area.

The proposal is to continue the same level of support in collections and examinations through September 1987. Sufficient funding to do so is available in the existing project. This time period will provide additional evidence on the effectiveness of technical assistance in these areas.

At the end of this time, achievements from the technical assistance and support within the ITD for future assistance should be evaluated by a small team of income tax specialists. A recommendation on whether additional assistance would be productive should be solicited. Recommendations on the areas for focusing future technical assistance should be made if the decision is to continue assistance in collections and examinations. Technical assistance should be brought to an end if it is determined that the benefits from future assistance appear limited.

The role for technical advisors in training and the ADP sector in the ITD would be performed by the long-term advisors in the Special Tax Activities area of the project if the long-term advisors in the ITD are withdrawn.

### C. Customs Tax Department

Customs taxation in Egypt has been a large source of revenue and offers considerable potential for generating additional revenues. The geographic shape of the country is appropriate for raising customs tax revenues because imports must be shipped through a limited number of ports and smuggling is relatively difficult because of the long distances most residents live from national borders.

Representatives of the CTD have expressed a desire for assistance in a variety of areas. Specific requests include:

1. Assistance in data base management;
2. Assistance in communicating instructions and regulations to potential taxpayers and in acquiring equipment, such as for printing and microfiching, to support this effort;
3. Support in development of a customs tax institute for customs tax collectors in Africa, including a language laboratory;
4. Equipment acquisitions for a laboratory for analyzing samples of imports;
5. Personal computer acquisitions and training in using the personal computers;
6. Training on how to manage an ADP center in the CTD;
7. Observational visits and conferences for senior and middle managers;
8. Assistance in designing systems for moving goods through customs.

A visit by two tax experts from the US Customs Service is planned for February 1987 in order to determine possible areas where technical assistance is likely to be productive. Conclusions from this analysis combined with the list provided by the CTD will provide an effective basis for determining the specific areas in which assistance should be targeted. It is anticipated that substantial technical assistance and hardware acquisition will be appropriate to support such an important and receptive Department. Computerization of many functions is expected as a means of enhancing efficiency.

#### D. Level of Support

The new roles recommended in the Special Tax Activities and the Customs Tax Department are proposed as areas where significant additional funding would be allocated. Technical support for the ITD is proposed to be on a level which continues past activities. Additional funding would be required to provide for equipment needs in the ITD.

The project involves institution building in a context where the tradition of how procedures should be handled is well ingrained. Changes of

this type require sustained inputs and goals which focus on the long-term, rather than what can be immediately achieved. The project must be designed such that the inputs can be sustained and achievements can be reaped as institutions evolve into more efficiently operating systems.

The need for sustained assistance also implies that some long-term advisors will be necessary in each area. TDY advisors will be appropriate in selected places such as for studies in the Special Tax Activities. Limited use of TDY advisors may also be appropriate in areas, such as computer assistance.

70

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GRADUATE RESEARCH ASSOCIATES AND ASSISTANTS

Douglas Amisshah	Public Admin.	Haeduck Lee	Economics
Marjorie Baldwin	Economics	Timothy Lewington	Geography
Douglas Benedict	Economics	Jing Li	Economics
Mahesh Bhawe	Social Science	Patrick Mauldin	Economics
Mary Calahan	Economics	Victor Mendez	Economics
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