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STAMP DUTIES

RECOMMENDATIONS FOR REFORM

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STAMP DUTIES

RECOMMENDATIONS FOR REFORM

TECHNICAL ASSISTANCE FOR POLICY REFORM II

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STAMP DUTIES:

Recommendations for Reform

INTRODUCTION

This paper reviews the diverse range of stamp duties that are levied in Egypt and presents recommendations for a comprehensive reform of stamp duties. The paper builds on prior work under the Public Finance Administration Project in 1990-91, and the recommendations are similar to those made at that time. With only a few exceptions, outlined later, the 1990-91 recommendations were not acted upon, and the large role of stamp duties in Egypt's tax system is much the same as it was 15 years ago.

In developing these recommendations, we have assumed that the proposed reforms need to be budget neutral, i.e. any revenue losses from the reforms need to be balanced by either offsetting revenue increases or spending reductions so that the budget deficit is not adversely affected. This has always been the challenge for stamp duty reform, because these duties generate large volumes of revenues for the Government -- LE 3.85 billion or 5.1% of total tax collections in the last reported fiscal year.¹

The basic objectives, which we believe are in keeping with the direction of reform more generally in Egypt, are to simplify the tax system and make it less costly for the Government and its taxpayers to administer, to make it more economically neutral, and to rely more heavily on broad sources of taxation -- namely income and sales taxes -- consistent with international norms.

While this report provides a foundation for reviewing the current stamp duty structure in Egypt, and for assessing the reform recommendations herein, further analysis could usefully be conducted to refine the recommendations and to better understand their revenue consequences. As will be outlined in a later section, we have benefited from access to the Tax Department data on stamp duty collections, for which we are most appreciative, but these data do have a number of shortcomings that limit the analysis.

The paper is organized into five major parts, with a number of sub-parts to Part III, which presents the proposed recommendations, as outlined below:

- 1) A Review of the Stamp Duty Legislation
- 2) An Analysis of Stamp Duty Collections
- 3) Recommendations for Stamp Duty Reform:
 - a. Duties on Government Payments
 - b. Duties on Documents
 - c. Duties on Non-Financial Services
 - d. Duties on Administrative Licenses and Permits

¹ According to the "Ministry of Finance Monthly Financial Report," November 2005, total tax collections for the year ended June 30, 2005 was LE 75.96 billion.

- e. Duties on Corporations
 - f. Duties on Bank-Related Documents and Services
 - g. Duties on Insurance
- 4) Recommendations for Development Duty Reform
 - 5) Summary and Proposed Next Steps

I. A REVIEW OF STAMP DUTY LEGISLATION

Stamp duties were introduced in Egypt in 1939 and were expanded in scope by numerous different amendments to the law up until 1995, at which time actions began to be taken to pare back stamp duty taxation in Egypt. Notwithstanding the relatively recent efforts to reduce the scope of stamp duty taxation, the tax base that has emerged from its sixty-six year legislative history is both extensive and diverse, including legal and other documents, Government payments, numerous financial and non-financial services, and more. While there is little or no economic rationale for the majority of these duties, the reality is that they generate large amounts of government revenue and are, for the most part, accepted by the citizenry as part of the Egyptian fiscal landscape.

Exhibit I presents a relatively detailed summary of the existing stamp duty rates that are currently levied in Egypt. The Stamp Duty Law, 111/1980 as amended, has 27 different Chapters, of which 5 have been repealed in the last decade. This Exhibit highlights the "patchwork quilt" of duties that are levied across a broad spectrum of activities in Egypt. Many of the duties are very low, with specific rates as low as 18 piastres, and with many that are below LE 1. Based on a cursory review of the Exhibit, one is left with the impression that virtually any "official" piece of paper must be stamped in the course of conducting personal or business activity in Egypt.

As noted above, five different chapters of the 1980 Stamp Duty Law have been repealed in the last decade. All of these repeals can be considered positive steps that have lessened, albeit very modestly, the role of these ad hoc duties on economic activity in Egypt:

- *Chapter 18 - Securities and Their Negotiation:* Law No.11/1995 repealed these duties -- which included an annual duty on shares and debentures issued by Egyptian companies and an additional duty on shares that were traded. These duties were an impediment to development of the corporate sector in Egypt, and their repeal was thus a very welcome development.
- *Chapter 15 - Postal Services:* Law No.2/1998 repealed these duties. Since postal services are provided by a Government agency, these duties were charged in addition to the postal fees. We had recommended in 1991 that repeal of the duties be accompanied by an increase in postal fees, so that this repeal would have no adverse budgetary consequences. We are told that postal rates were not in fact increased at the time of repeal of the duties, which would mean that the budget deficit would have been increased by the amount of the stamp duty collections associated with postal services. The explanatory note for Law No. 2 that repealed this duty did say that the repeal would alleviate the burden on the Postal Authority. We view this as an acknowledgement that this duty (and the many others of a similar nature) are in fact burdensome to administer.²
- *Chapters 2 and 3 - Copies and Extracts:* Law No. 2/1998 repealed these duties. They were, to a very significant degree, unenforceable and we believe that revenue collections associated with these chapters was not great. The explanatory note that accompanied Law No. 2 acknowledged that repeal would "alleviate burden on the citizens" thereby acknowledging that compliance was onerous, and that this was an important factor underlying its repeal.³
- *Chapter 25 - Financial Position and Wealth Declarations:* Law No. 2/1998 also repealed these duties, which generated minimal revenues. At the time of enactment it was noted

² Source: Mohamed Badran, *Magmu'et Badran el Darebia*, Vol. III. Cairo: el Maktaba el Darebia, 1999, p. 1389.

³ *Ibid*

that levying this duty created an adverse incentive for individuals to file their required wealth declaration; hence its repeal.⁴

Because the stamp duties are so diverse in nature, and cover such a broad spectrum of activities, as evidenced by Exhibit I, the analysis of these duties necessarily needs to be relatively disaggregated. For purposes of this paper, the analysis in Part III is accordingly disaggregated into seven different categories of duties, as outlined in the introduction: Government Payments; Documents; Non-Financial Services; Administrative Permits and Licenses; Corporations; Bank Documents and Services; and Insurance.

Part IV of the paper discusses briefly the development duties that are levied by the Government. Many of these duties are imposed in duplication of stamp duties; we believe that any comprehensive reform of stamp duties should accordingly address development duties as well.

⁴ The requirement that individuals file a wealth declaration was removed by the 2005 income tax reform legislation.

II. STAMP DUTY COLLECTIONS

Because the continued existence of stamp duties is generally linked almost entirely to their large revenue productivity, and not to any underlying economic rationale, it is worth reviewing the collections data prior to presenting the analysis of stamp duties and the recommendations for their reform. In preparing this report we have benefited from receiving detailed stamp duty collections data from the Tax Department.⁵

Exhibit 2 presents the official data from the annual budget on stamp duty collections, by Chapter of the Law, for the last seven fiscal years. These data allow one to identify quickly the major sources of stamp duty revenue. Using the fiscal year ending June 30, 2005 as the basis for discussion, three sources of duties accounted for 57% of collections during this fiscal year:

- Duties on government salaries and disbursements accounted for LE 1.17 billion in stamp duty revenues, or more than 30% of the total.
- Duties on utilities -- gas, electricity, water and telephone combined -- accounted for LE 536 million, or almost 14% of the total.
- Duties on insurance accounted for LE 493 million, or about 13% of the total.

Similarly, Exhibit 3 suggests that many of the Chapters of stamp duty levied under the Stamp Tax Law are very revenue unproductive. The five lowest revenue-producing Chapters still operational under the law (5, 7, 8, 26, and 27), are reported in Exhibit 3 to have generated no revenue in FY04-05. Similarly, the ten lowest revenue-producing Chapters are shown to have generated less than LE1.5 million in collections combined, or only 0.04% of stamp duty revenue. These data, on the surface, suggest that there are a significant number of "nuisance" duties that could immediately be repealed without material revenue consequences. Unfortunately, there are two limitations to these data that seriously complicate this analysis and caution against immediately drawing this conclusion:

- "*Papers and stamps*": The official collections data show that large amounts of revenue -- LE 192 million in FY04-05 -- are attributed to this general category. This collection category in fact represents the purchase of stamps that are used by taxpayers for application against many different Chapters of the Stamp Tax Law. It is, then, the equivalent of a "Not elsewhere classified" category of stamp duty collections. Tax Department officials with whom we have met have not been able to provide guidance on where these duties are likely to originate, but it is possible that further discussions could generate insights to their Chapter of origin.
- "*Miscellaneous stamps*": These revenues -- which accounted for LE 735 million in FY04-05 collections! -- are reported by the Tax Department to be collections from audit activities and, like the above, are "Not elsewhere classified". The Department reports that the vast majority of these revenues would come from corporations and large unincorporated businesses; unfortunately, even if this is true, it does not narrow the likely chapter-by-chapter origin of these revenues significantly. Discussions with Department auditors could potentially shed further light on this issue, but at this stage, the allocation of audit revenue by originating Chapter is highly uncertain.

⁵ We would like to extend our appreciation to Mr. Sabri Khattab for providing stamp duty revenue data for the last seven fiscal years.

These important caveats notwithstanding, it does appear that a number of different stamp duties could be repealed without seriously threatening a material loss of revenue. These will be identified in the course of discussion in Part III of this report.

III. RECOMMENDATIONS FOR STAMP DUTY REFORM

INTRODUCTION

Stamp taxes are among the oldest form of taxes. In earlier times, documents and other tangible items offered an identifiable tax base and the affixing of a stamp provided a useful means of enforcement. The tax base was selected on the basis of convenience and availability, not economic merit.

In today's world, most public finance practitioners and tax administrators consider stamp duties to be archaic and ill suited to a modern system of taxation. With the growth of income and broad-based sales and value-added taxes, which offer the opportunity to take economic and equity considerations into account, stamp duties have dwindled in importance. There are at least two anecdotal data points to support the view that stamp duties are a small and declining source of revenue in most countries:

- *Availability of stamp duty data:* It is always interesting to do cross-country comparisons of different tax sources to get a better sense of the norm for countries at different levels of economic development. Such comparisons for stamp duties are greatly complicated by the fact that centralized data, such as from the IMF Government Finance Statistics Yearbook, do not include stamp duty data, highlighting that this is not a material source of revenue for most countries.
- *Country reviews:* Some country websites were reviewed on a cursory basis for this paper, which produced the following general conclusions: i) stamp duties are not a common source of significant revenue in developed countries, and where duties are levied in these countries they are typically on real and/or immovable property transfer; ii) countries that do appear to levy a range of stamp duties (e.g. Indonesia and Libya) are behind Egypt in developing their fiscal systems and are not model countries for Egypt to follow; and iii) in at least two of the small sample of countries looked at for this review -- Yemen and Sri Lanka -- stamp duties have recently been repealed.

As part of the continuing effort to introduce comprehensive tax reforms in Egypt, the Government of Egypt should attempt to identify areas where tax rules are duplicative, economically distorting, costly to collect and comply with, or inequitable in their application. Many of the stamp duties imposed in Egypt suffer from several of these deficiencies, which makes them candidates for repeal in lieu of other revenue sources.

- *Duplication.* In a number of cases, the stamp duty is only one of several taxes or fees charged by the government on a particular transaction. The proportional stamp tax on wages, for example, is applied in addition to the income tax on wages and salaries.
- *Distortion.* Many of the duties distort economic activity, as in the case of the stamp duty on checks, which provides a disincentive for people to use the banking system, and documented forms of payment, to make payments for goods or services received.
- *High Compliance Costs.* The procedure for levying stamp duties, and affixing a stamp (or printing a stamp) on each business document, represents a time consuming and costly nuisance to taxpayers.

The costs to the Government of administering the stamp tax in Egypt are not known and are beyond the scope of this paper. In 1990-91, the Tax Department argued that Department administrative costs were low and that only about 700 tax officers were engaged in stamp duty assessment and administration. That staffing estimate was always viewed with suspicion, however, given the wide diversity of stamp duties that are applied and the fact that the Department has such a decentralized system of tax assessment and collection at the District level. This suspicion is heightened by the significant amount of revenues that are

now reported to be collected through audit (miscellaneous stamps in Exhibit II), as reported earlier.

Whatever the costs of administration to the Department, one also needs to be sensitive to the compliance costs to taxpayers (in some cases other Ministries who collect and remit the tax) where their involvement is required to facilitate stamp duty administration. It seems likely, given the impression that virtually every piece of “official” paper is subject to a duty, that the costs of compliance are high and often a major inconvenience to taxpayers, particularly business taxpayers. This cost is compounded by the fact that the stamp tax is often only one of several taxes or charges that must be applied to a particular transaction. As Egypt continues its efforts to become a more hospitable environment for private sector development, it is increasingly important that there is both the perception and reality that doing business in Egypt is not in fact burdensome.

There is also an issue as to the degree of compliance with the stamp duty law. For the single largest source of stamp duties – the duty on government salaries and disbursements – one would expect compliance to be high. The same might also be true for the duties on utility services, insurance, and banks, which represent other large sources of stamp duty revenue. Nevertheless, given the very extensive nature of the tax base, the costs and practical difficulties in identifying the evaders, and the inadequate penalties for non-compliance, one is left with the impression that compliance must be an issue. This is supported by the fact that more than 19% of stamp duty collections result from Tax Department audit activities.⁶

In the discussions of each of seven areas of stamp duties below, with the exception of insurance, it is argued that stamp duties can and should be replaced by broader-based taxes or charges, or by other fiscal actions, that would reduce economic distortions and substantially lessen administrative and compliance costs. These reforms could be introduced together with compensating policy actions to avoid any adverse effects on the Government's budget position. The rationale behind the reforms of the seven different categories of stamp duty reform is outlined in the respective discussions of these categories of duties.

A. DUTIES ON GOVERNMENT PAYMENTS

Chapter 17 of the Stamp Duty Law imposes duty on all government payments, including payment of salaries to government and public sector employees and payments for the purchases of goods and services. As reflected in Exhibit 1, the percentage rate of duty applicable on payments for the purchase of goods and services is exactly triple that applicable to wages and salaries. This is the largest source of stamp duty revenue, as noted earlier, accounting for over 30% of stamp duty revenues. The Tax Department data do not distinguish between data on salaries and data on purchases, but the “informed judgment” from the Department is that about 20% of the revenues come from application of the duty to salaries and the remaining 80% from the application of the duty to purchases. Based on this “informed judgment,” revenues from the two sources of duties on government payments are estimated to be as follows:

⁶ While the penalty and delay fine structure for income and sales taxes has been reformed in recent years, the corresponding structure for stamp duties has not. The current penalty structure for stamp duties, with a top financial penalty of LE 200, does not provide a strong incentive to comply with the law on a timely basis. Since stamp duties are an indirect tax, it is recommended that the same penalties that apply to the GST apply to stamp duties.

Collection from Duties on Government Payments* In LE thousands

	FY03	FY04	FY05
Duty on government salaries	167,272	197,995	234,856
Duty on government purchases	669,087	791,982	939,422
Total	836,359	989,977	1,174,278

*Note: The data exclude collections that are not classified by chapter, as discussed earlier.

As will become apparent from the discussion below, there is an important reason to distinguish between these two elements of the stamp duty on Government payments and to discuss each separately.

1. THE STAMP DUTY ON GOVERNMENT WAGES AND SALARIES

The stamp duty on the wages and salaries of government and public sector employees is effectively a very low rate income tax. The base on which the duty is calculated is different from that of the income tax; furthermore, the duty is administered separately from the income tax on wages, and there appears to be little or no coordination between the two.⁷ The applicable rates are as shown below:

1.0 Stamp Duty Rates on Government Wages and Salaries

Monthly Income	Tax Rate
LE 50 or Less	0.00%
LE 50+ up to LE 250	0.60%
LE 250+ up to LE 500	0.65%
LE 500+ up to LE 1,000	0.70%
LE 1,000+ up to LE 5,000	0.75%
LE 5,000+ up to LE 10,000	0.80%
More than LE 10,000	0.30%

These tax rates themselves require some explanation. For all income brackets except the top bracket, the tax rates shown are average tax rates that apply to total monthly income for that bracket. The last tax rate, however, is a marginal tax rate that applies to monthly income in excess of LE 10,000 (the tax on the first LE 10,000 is LE 10,000 x .8%, or LE 80).

The base of the stamp tax on salaries includes the majority of the employee's compensation income. However, a number of employee allowances are excluded from the tax base (such as the housing and meal allowance) and certain deductions from the tax base are allowed (such as employee payments of social security taxes). Income that is exempt and

⁷ As noted later in the report, there is a third stamp duty applicable to wages and salaries, which is the 30-piastre duty applicable to each wage invoice. This duty is effectively an LE 3.6 per year stamp duty (assuming most wages are paid on a monthly basis) on each wage and salary earner in Egypt, whether they are in the public or private sectors. This stamp duty, in turn, attracts a further 10-piastre development duty.

deductions that are allowed are then subtracted to arrive at the taxpayer's *taxable* income. The employing Ministry or Government agency deducts the tax at source.

There is no economic rationale for administering what is the equivalent of a supplementary “mini” income tax that is applicable only to government and public sector employees. It requires additional government resources to administer and only clutters and complicates the tax system. In concept, though perhaps not in political reality, there is a relatively straightforward “fix” that is budget neutral and would eliminate the administration of this complex duty:⁸

Recommendation: *The stamp duty on government employees is estimated to be approximately LE235 million, which represents approximately 0.7 percent of total government wages and salaries in FY2005. At the time of the next Presidential bonus (across-the-board pay increase for government and public sector employees), reduce the planned pay increase by 0.7 percentage points and eliminate the stamp duty applicable to these employees salaries. E.g., a planned 10% increase could be announced as “A 10% increase in compensation, including both a payroll increase and elimination of duties applicable to government and public sector employees.” Any differences, employee by employee, from substituting this reform for implementing the full pay increase will be relatively immaterial. The benefit: it would eliminate the need for calculating, paying and collecting this duty across government and would free resources to focus on more productive endeavors.*

Possible Further Analysis: *This initiative could usefully be discussed with someone in the Budget Directorate of the Ministry to gauge whether there are any unknown complications to administering this, other than the procedural issue of linking a legislative tax change with an administrative change to raise government salaries. Further work could also be commissioned to assess the accuracy of the assumption that stamp duty revenues represent about 0.7 percent of Government and public sector payroll, although that percentage seems reasonable given the applicable tax rate schedule.*

2. STAMP DUTY ON OTHER GOVERNMENT PURCHASES

The duty applicable to Government purchases of goods and services is believed to be the largest source of stamp duty revenue accruing to the Government. The rates are levied on a graduated basis, based on the size of the transaction, as shown below. The rates are applied in the same way as outlined earlier for government payments, with the rates in all but the last bracket representing the applicable rate on payments in that bracket, and with the last bracket representing the marginal rate on purchase amounts in excess of LE 10,000.

2.0 Stamp Duty Rates on Government Purchases

Amount of Payment	Tax Rate
LE 50 or Less	0.0%
LE 50+ up to LE 250	1.8%

⁸ According to the Ministry of Finance Monthly Report, November 2005, the total government and public sector wage bill was LE 34,644 million. Estimated stamp duties of 235 million are .68% of this total, or about 0.7%.

LE 250+ up to LE 500	1.95%
LE 500+ up to LE 1,000	2.1%
LE 1,000+ up to LE 5,000	2.25%
LE 5,000+ up to LE 10,000	2.4%
More than LE 10,000	0.9%

The duty is, in effect, an excise tax applicable to business sales to government and public sector entities. The net budgetary impact of the duty on government and public sector payments, if any, is probably relatively small. Businesses that supply goods and services to the Government can, in most circumstances, be expected to increase their prices to compensate for the duty. It is, for them, just another cost of doing business. The net budgetary impact of the duty, therefore, is to increase both government spending and government revenues by like amounts. The costs of administering and complying with this duty, then, are incurred for little or no net budgetary gain.

For reasons noted above, repealing this duty should have little net budgetary impact within a relatively short period of time, subject to two complications:

- *Existing contracts:* If the stamp duty on purchases were to be repealed, there is the potential for businesses who have existing contracts with the Government – contracts in which they have assumed that the stamp duty is one of the costs of providing the contracted goods or services to the Government– to receive a windfall benefit. To achieve a neutral budgetary position in the short run, it would be necessary to try to avoid repeal of the applicable duty on contracts that have already been signed with the government.
- *Adjusting Ministry budgets:* Ministry and public sector company budgets implicitly include funds to cover the cost of this duty, which is reflected in the cost of the respective procurement activities they have budgeted. It is not, we suspect, a line item in their budgets, but it is nevertheless an implicit cost that they are expecting to incur. If this duty were repealed, it would require that future budget allocations to Ministries be adjusted downward to reflect the fact that their cost of procuring goods and services has been reduced by repeal of the duty. To produce a neutral budgetary outcome from repeal of this duty would require advance planning and need to be linked to the budget planning cycle. Otherwise, Government ministries would receive at least a short-term windfall gain from elimination of the duty.

Recommendation: *Repeal the stamp duty on government purchases. Introduce the repeal with sufficient advance notice that the impact of repeal can be reflected in Ministry and public sector company budgets and take appropriate actions such that companies doing business with the Government do not receive a short-term windfall from the repeal.*

Possible Further Analysis: *Further assess the mechanics and timing for implementing repeal of the stamp duty with senior officials in the Ministry's Budget Directorate, to assess how implementation could be done in a manner to assure a neutral or near neutral budget outcome.*

B. DUTIES ON DOCUMENTS

As shown earlier in Exhibit I, stamp duties are imposed on a wide range of documents, including various types of certificates, contract documents, minutes of company meetings, court orders and the like, commercial maritime documents, and applications and complaints made to the Government. The rates are generally very low, but the volume of activity is sufficiently high that the combined duties on documents produce material amounts of government revenue. This is reflected in the summary table below:

Collections from Duties on Documents*				
In LE thousands				
Chapter	Description	FY03	FY04	FY05
1	Certificates and documents	904	1,898	878
4	Contracts and the like	56,275	45,378	63,908
5	Marriage documents	0	0	0
6	Maritime documents	6,273	13,874	1,878
7	Companies' reports	0	0	0
8	Ministry of Justice documents	1	0	0
11	Receipts and invoices	248,258	247,310	376,810
21	Subsidy cards	26,582	19,364	19,557
24	Weight certificates and lists	1	0	5
26	Egyptian nationality	0	0	0
	Total	338,743	327,825	463,034

*Note: The data exclude collections that are not classified by chapter, as discussed earlier.

The duty on documents is generally specific, with one exception. Receipts and invoices (including receipt of monthly wages!) are taxed at 30 piastres each. The large majority of other documents are taxed at the rate of 90 piastres for each "paper". Higher rates apply to educational certificates, certificates of marriage and divorce, and duties related to granting Egyptian nationality.

As noted above, the stamp duty on documents is, in the large majority of cases, only of nominal amount. The mirror image of a large range of numerous applicable transactions is a very high cost of compliance associated with the duty on documents. The application of stamps to such a large volume of transactions is a major inconvenience to those who must deal with them. Furthermore, the varied and diverse nature of the base itself is likely to result in poor compliance and make enforcement both ineffective and costly. The duty is also almost certainly regressive in its impact.

Because the administrative and compliance costs are high relatively to the revenue yield, the reliance on duties should be greatly reduced as part of an overall tax reform program. A brief review of the major categories of documents on which duties are levied is outlined below.

- *Certificates issued by the Government.* Government-issued certificates, such as for registration of marriages and divorces, involve administrative costs that can reasonably

be recovered through a system of fees or stamp duties. The recommendation is to continue to collect revenues through fees, but abolish the requirement for a stamp. In the case of educational certificates, the recommendation is to abolish the duty entirely.

- *Receipts.* The current duty of 30 piastres applies to receipts of LE 1 or more that are covered by stamp duty. The duty on receipts should be abolished.
- *Court orders, warrants and notifications.* For the reasons cited above for government-issued certificates, it is recommended that fees be increased to include the amount of the stamp duty, but that the requirement for a stamp be abolished.
- *Certificates and documents issued by the commercial sector.* Contract documents, commercial maritime documents and commercial papers are all associated with business transactions. Government agencies play no role except in a regulatory capacity. The duties should be abolished.
- *Minutes of company meetings.* Stamp duty is payable at the rate of 90 piastres on each sheet of paper on which minutes of company meetings are recorded. There is no economic justification for such a duty and, and given that this provision is limited to registered corporations, of which there are only 5023 in number⁹, the revenue yield is thought to be relatively immaterial.

Recommendation: Abolish all stamp duties on documents. In a number of cases, such as for issuing certificates of nationality, marriage or divorce, comparable increases in fees could be charged in lieu of stamp duties. The revenue loss from repeal of these duties, to the extent they are not replaced by increased fees, should be offset by an increase in the General Sales Tax.

Possible Further Analysis: Assess budgetary implications of government departments collecting additional fees in lieu of stamp duties.

C. DUTIES ON NON-FINANCIAL SERVICES

Stamp duties are imposed on a wide range of non-financial services including: utility services; telecommunications; specific transport services, and publicity and advertising services, as outlined in Exhibit I.

⁹ Source: Information and Decision Support Center (IDSC), Monthly Economic Bulletin, Vol. 13, issue No. 156, December 2005, P. 4.

Collections from Non-Financial Services*

In LE thousands

Chapter	Description	FY03	FY04	FY05
13	Advertisements	32,090	9,494	27,710
14	Transportation services	1,180	98	126
16	Lottery and bets	9,017	15,612	19,861
22	Gas and electricity	251,410	248,596	229,815
23	Water, telephone	205,155	229,729	306,014
27	Scales and calculators	1	1	0
	Total	498,853	523,530	583,526

*Note: The data exclude collections that are not classified by chapter, as discussed earlier.

The non-financial services on which stamp duties are currently levied fall into two categories: 1) services that are provided by the Government or the public sector and for which increased prices and/or imposition of the GST are preferable to the levy of stamp duties; and 2) services that could more effectively be taxed under the Government's sales tax.

- *Publicity and advertising services.* A highly complex system of duties is imposed on a broad range of publicity and advertising services. The complexity of the duty, and the likely high cost of administration and compliance, argue for its repeal. These services are not currently taxed under the GST and should be; this is likely to offset the revenue loss associated with duty repeal. If there is a desire to discourage advertising services relative to other business expenses, this could be accomplished by introducing income tax provisions that reduce the amount of the deduction for advertising services.
- *Transportation services.* Stamp duties are imposed on travel by railway, plane, land and ship. Consistent with international norms, domestic and international travel should be treated separately for purposes of taxation:
 - *Domestic travel:* Currently, the GST is not applied to domestic travel. In lieu of applying the wide range of stamp duties that are currently applied to domestic travel, it is recommended that the GST be applied instead. This could be done by applying the lower 5% GST rate to non-luxury domestic travel and increase the rate on tourist and air-conditioned transportation from 5% to the standard GST rate. This outcome could be combined, as judged appropriate, with increases in fees applicable to government-operated domestic travel.
 - *International travel:* International air travel is already taxed under both the Stamp Duty Law and the development duty that is discussed in Part IV of this report. These duties, in the aggregate serve as the equivalent of “departure taxes” and are justified under international norms. It is recommended that the existing stamp duties applicable to foreign travel could be repealed, with commensurate increases in the development duty to achieve a revenue neutral outcome.
 - *Transport of goods:* The duties on transport of goods (LE 1.62 per bill of lading plus 18% of transport fees up to 60 piastres) should be abolished. Transportation services should be taxed under the GST and there is no economic justification for further taxing these services. The revenue loss from this repeal is not believed to be material.
- *Utility services.* A supplier of water, electricity or gas must pay an annual stamp duty of LE 3 for each customer. The customer, in turn, must pay a specific duty based on the volume of consumption. These rates, which are low, distinguish between industrial and non-industrial uses. It is recommended that these services be taxed under an expansion of the GST in lieu of the existing stamp duty, even if at the lower 5% rate. The applicable rates for utility services could be increased, either in lieu of applying the GST as

recommended above, or in addition to it, to compensate for the elimination of existing stamp duties.

- *Telecommunication services.* A duty of LE 6 is imposed for each telephone and LE 300 for each telex machine. As with utility services, these duties should be replaced by greater reliance on the GST as it is applied to telecommunication services. Specifically, the GST rate on landlines and telegrams could be increased from the existing 5% rate to the standard rate.
- *Lottery and betting:* The Stamp Duty Law currently levies a 60% ad valorem tax on lottery and betting winnings – a very high rate that is no doubt designed to discourage lottery and betting activity. As an alternative to applying a separate stamp duty, the government could consider taxing lottery and betting winnings under the income tax, with withholding “at site” for large winnings. If there is a desire to further limit the returns to lottery and betting activity, for government-regulated lottery and betting activities, this could be accomplished by regulating the payout from these activities.
- *Scales and calculators:* This is a very minor duty with no apparent economic justification. There would be no material revenue consequences from repealing this chapter of the Stamp Duty Law. It is recommended that it be repealed.

Recommendations: *Abolish all stamp duties on non-financial services. The lost revenue to the Government can be replaced or even enhanced by expansion of the sales tax to some of the services to which stamp duties currently apply. As an alternative or supplementary measure, Government revenues could be maintained or enhanced by increasing charges by Government for publicly provided services.*

Possible Further Analysis: *Assess budgetary implications of government departments collecting additional fees in lieu of stamp duties.*

D. DUTIES ON ADMINISTRATIVE PERMITS AND LICENSES

Stamp duties are imposed on government issuances of administrative licenses and permits. A duty of 90 piastres is charged on every permit issued by any administrative authority. As illustrated in the text table below, the duty on licenses ranges from as low as LE 6 per annum to as high as LE 300 per annum.

Stamp Duty Rates on Licenses (LE, annual rate)

<u>Description</u>	<u>Rate</u>
Mining exploration	300
Amusement house	300
Brick making plant	300
Building license	30-60
Trucks	12-18
Public place	12
Place of manufacturing	18
Vehicle license	6-12
Arms/munitions	6

As noted in a later section of this report, a development duty is also applied against many different licenses. Both the stamp duty and, to the extent applicable, the development duty, are levied in addition to the fee or charge for the permit or license being procured.

Collections from Administrative Permits and Licenses*				
In LE thousands				
Chapter	Description	FY03	FY04	FY05
19	Administrative Permits and License*	1,486	1,426	908
	Total	1,486	1,426	908

*Note: These data exclude collections that are not classified by chapter, as discussed earlier.

The government could collect the same amount of revenue, and at a lower cost, by raising the fee for the license or permit. There is no additional benefit from the separate levying of a stamp or development duty.

Recommendation: Abolish all stamp duties on licenses and permits.

Possible Further Analysis: Assess budgetary implications of government departments collecting additional fees in lieu of stamp duties.

E. DUTIES ON INCORPORATION

Two different stamp duties are imposed on corporations under existing law, as described below:

- A duty is imposed at the time of incorporation of LE 1,800 for joint stock companies and LE 900 for all other companies.
- A duty is imposed if the capital in the company is increased. The duty is LE 120 for joint stock companies, LE 60 for partnerships with shares and limited liability companies.

Duties that were previously imposed on shares and debentures, and the sale of such shares and debentures, were abolished in 1998. This was a very favorable reform because these duties acted as impediments to the corporate sector and to the development of capital markets in Egypt.

Collections from Duties on Incorporation				
In LE thousands				
Chapter	Description	FY03	FY04	FY05
20	Duties on incorporation*	111	121	417
	Total	111	121	417

*Note: These data exclude collections that are not classified by chapter, as discussed earlier. They also exclude collections in FY03 for collections under Chapter 18, which was repealed in 1998 but continued to generate some collections from prior year liabilities in FY03.

The stamp duty levied at the time of incorporation is effectively a registration fee, which is a customary charge in most countries. Consistent with the general recommendation that stamp duties be eliminated to the full extent possible, this duty could be changed to a fee without requirement for a stamp. The same applies for the existing stamp tax associated with increases in capital in companies.

Recommendation: *Abolish all stamp duties on corporations, as discussed above. Fees associated with incorporation and increases in capital would be levied in lieu of the existing stamp duties.*

Possible Further Analysis: *Assess budgetary implications of government departments collecting additional fees in lieu of stamp duties.*

F. DUTIES ON BANK-RELATED DOCUMENTS AND SERVICES

Several different stamp duties, some specific and some ad valorem, are applied on documents and checks issued by banks and on banking transactions. The range of duties applied is shown in the text table below, although the listing is not exhaustive of all the duties that are applicable under the law (see Exhibit I for complete list).

3.0 Duty Rates: Bank-Related Documents and Services

<u>Description</u>	<u>Rate</u>
Ad valorem duties:	
Opening of a credit	.10%
Bank transfer orders	.60%
Loans, advances, etc.	.20-80%
Specific duties:	
Bank accounts (annual)	LE 15
Letters of guarantee	LE 30
Promissory notes	LE 30
Bank transfer orders	60p
Checks	30p

The stamp duties on bank documents and transactions appear to be levied solely for generating revenue. The level of compliance is probably high, given that bank processes and procedures tend to be highly regimented, and enforcement by the Tax Department is relatively easy. Nevertheless, the cost of compliance by taxpayers is also generally very high, as it is for all stamp duties. This greatly diminishes the desirability of these duties as a continuing long-term revenue source.

Collections from Duties on Bank-Related Documents and Services*

In LE thousands

Chapter	Description	FY03	FY04	FY05
10	Commercial Documents (includes checks)	6,050	11,369	3,361
12	Banking Documents and Services	227,271	190,830	202,261
	Total	233,321	202,199	205,622

*Note: The data exclude collections that are not classified by chapter, as discussed earlier.

Furthermore, the duties create undesirable distortions in the conduct of financial affairs by businesses and individuals. By adding to the cost of banking transactions, albeit at relatively low rates, the Government is acting to discourage financial intermediation, an objective it should in fact be encouraging. The duty on checks, for example, delays and encumbers what are normal business transactions in other countries and encourages the use of cash transactions over the use of checks. Since checks provide records and audit trails that are not available with cash transactions, the existence of stamp duties on financial transactions has a general adverse effect on the administration of income and sales taxes.

Recommendation: Abolish all stamp duties on bank-related documents and services. The revenue currently raised from these duties would be more efficiently and more economically neutrally raised through an increase in the GST rate at the time of GST reform.

G. DUTIES ON INSURANCE

As outlined more fully in Exhibit I, there are several different stamp duties that are applied to insurance premiums, at widely varying rates, as outlined in the text table below:

4.0 Stamp Duty Rates on Insurance

<u>Description</u>	<u>Rate</u>
Premiums for life, health and compulsory insurance	3%
Premiums on automobile and other transportation-related insurance	15%
Premiums other than those described above	20%
The capital value of annuity policies	2%
Total premiums of insurance companies	0.8%

All but the last duty shown in the table above are levied on the purchaser of insurance policies. The duty on total premiums, in contrast, is levied on the insurance company itself. According to Department officials, the stamp duties on insurance payments produced government revenues of approximately LE 493 million in FY05, or about 13 percent of total stamp duty collections.

Collections from Duties on Insurance

In LE thousands

Chapter	Description	FY03	FY04	FY05
12	Duties on insurance*	199,795	262,327	492,760
	Total	199,795	262,327	492,760

*Note: The data exclude collections that are not classified by chapter, as discussed earlier.

The application of income and sales taxes to the insurance industry is regarded as being highly complex in any country. Income is difficult to measure for purposes of income taxation and the consumption element of insurance is difficult to measure for sales tax purposes. Accordingly, stamp duties, or excise levies, on premiums are a generally accepted means of taxing insurance.

Insurance premiums are by no means an ideal base on which to levy a tax on consumption, because premiums often include a savings element. Furthermore, public finance practitioners also argue that the portion of insurance that funds benefits to others should not be considered an element of consumption. These caveats notwithstanding, a number of countries, including developed countries such as Canada, France, Italy, Belgium and Japan levy a percentage tax on insurance premiums and it is reasonable for Egypt to do so as well. The tax should, however, be applied more uniformly across different types of insurance.

Furthermore, there seems to be little reason for applying separate taxes on both the purchaser of the insurance and on the firm providing the insurance. While issues of ultimate tax incidence are always difficult ones, there seems little reason to believe that the outcome of the current two-tier tax would be greatly different from one in which the taxes on premiums were all higher by 0.8 percentage points.

The one area where an exception to a uniform tax on premiums would exist is annuities, which are much more like pension funds and should be taxed as such. The taxation of annuities should accordingly be considered in coordination with the taxation of pension income under the income tax law.

The existence of high rates of tax on insurance premiums does inhibit the growth of the insurance industry and thereby discourages this potentially important form of savings. The relatively high existing rates of duty -- particularly for transportation-related and "other" policies -- would seem in fact to be significant deterrents to the growth of the insurance industry in Egypt.

Recommendations: *Restructure duties on insurance*

- *Consolidate the two existing levies on insurance premiums into a single levy applicable to the purchaser of the insurance.*
- *Reduce the consolidated tax rate to a single rate tax, possibly as an excise tax under the reformed GST law, consistent with international norms. While the range of premium rates around the world varies significantly, a BearingPoint insurance advisor (who has worked previously in Egypt) suggested that international norms centered on premium duties of 2 to 4 percent, though rates somewhat above that would not be unreasonable or outside of international norms.*
- *Whatever consolidated tax rate is selected, it should not apply to annuity policies. Annuity policies should be treated in coordination with the taxation of pensions.*
- *Any revenue losses associated with reform of stamp duties on insurance should be recovered through increases in the GST.*
- **Possible Further Analysis:** *Since insurance appears to be the third largest source of stamp duty revenues, further analysis could be undertaken to assess the revenue implications of proposed reforms in this area. Further analysis could also be done on the tax treatment of annuity policies, consistent with tax treatment of pensions under the new income tax law.*

IV. DEVELOPMENT DUTIES

While the primary focus of this paper is on stamp duties, it is noteworthy that the Government also levies development duties that appear to overlap to a significant degree with stamp duty levies. Indeed, as shown below, the single largest revenue producing development duty is a 10-piastre duty applicable to any tax base that is subject to a stamp duty at the rate of 5 piastres or more! This is duplication by design!

In total, the “Duty for the Development of the Financial Resources of the State,” Law No. 147/1984, as amended, has 29 articles, describing a myriad of duties that are levied and administered separately from stamp duties.

- Development duties that overlap or duplicate stamp duties include: all tax bases subject to a stamp duty, as note above; Egyptian nationality; arms licenses; vehicle licenses; and extracts of document copies.
- Other development duty tax bases of importance include: foreign travel, entertainment and parties at hotels and tourist places, and duties on new vehicles.
- Exhibit IV presents a description of the Development Duty Law, comparable to the Exhibit I presentation for the stamp duty law.

Based on data made available by the Tax Department for the fiscal year ending June 30, 2004, it appears that about 75% o development duties come from three sources, as shown in the text table below, and as presented in more detail in Exhibit V:

Development Duties* (in LE thousands)	
<u>Description</u>	<u>FY04</u>
Tax bases subject to stamp duty	125,733
Foreign travel	116,307
Passports, Egyptian nationality, etc.	110,050
All other	<u>115,341</u>
Total	467,431

*Note: Excludes development duties collected from a 2% duty on individual and corporate incomes in excess of LE 18,000. This duty was repealed in 2005, so its revenue consequences do not need to be further considered as part of a reform of stamp and development duties.

If stamp duty reform moves forward, a more careful review of development duties should be undertaken. It is apparent that there is a considerable degree of overlap that needs to be addressed.

- Development duties applicable to “Tax bases subject to stamp duty” would disappear automatically if stamp duties are repealed
- The duty on foreign travel – 25% of the ticket price, up to LE 150 on first class tickets and LE 100 on other tickets -- is effectively a departure tax in all but name and should be retained. The ceiling rates could be increased to absorb the cost of repealing existing stamp duties.
- Other development duties need to be reviewed, Chapter by Chapter, to assess how they should be integrated into a coordinated indirect tax reform program.

V. SUMMARY AND PROPOSED NEXT STEPS

SUMMARY

The purpose of this report has been to provide a general framework for the Ministry to consider reducing or eliminating its reliance on stamp duties. In developing this framework, we have attempted to face up to the primary challenge associated with stamp duty reform – namely that these duties generate nearly LE 4 billion in annual revenues.

The report highlights that, with only a few exceptions, there is little or no economic rationale for these duties and the only major obstacle to their repeal has been their large revenue productivity. Given the diverse nature of stamp duties, as outlined throughout this paper, there is no single “fix” to address this revenue issue. But as part of an overall reform program, the revenue consequences of repealing stamp duties are manageable.

This report recommends repeal of all stamp duties. The overall reform program envisioned would have four primary elements, as outlined below.

- 1) *Reductions in budget spending to offset the repeal of stamp duties on government payments.* Based on the estimates of stamp duty collections on government payments, it is estimated that about 30% of the revenue loss from repeal of stamp duties would be addressed by this proposed reform.
- 2) *Increases in government fees, where duplicative stamp or development duties are currently levied, and/or expansion of the GST tax base to include the base against which stamp duties are currently levied (domestic travel is one example).* While data issues preclude making any definitive judgments, it seems likely that this recommendation could provide for increased fee and GST revenues of at least 30% of current stamp duty collections.
- 3) *Introduction of a streamlined duty or excise tax to replace the existing stamp duties on insurance (annuities excepted).* While further analysis would be required, it would appear that a single-rate of tax could be established that is within international norms and could generate 10% of current stamp duty collections.
- 4) *An increase in the GST rate to offset stamp duty repeals that are not offset by compensating actions.* While the amount of the increase that would be required requires further analysis, if 70% of stamp duties were offset by other compensating actions, as outlined above, this would mean that 30% of these collections would have to rely on an increase in either income taxes or the GST in order to have a budget-neutral reform program. Again, subject to further analysis, it would appear that a one percentage point increase in the base rate of the GST would be more than sufficient to generate this amount of revenue.

Because a number of the recommended reforms are linked directly or indirectly to the anticipated reform of the GST, it is recommended that stamp duty reform be integrated into the GST reform as an overall reform of indirect taxes in Egypt.

NEXT STEPS

This paper presents a framework and a set of recommendations for stamp duty reform.

- *Comprehensive reform:* If comprehensive reform is judged to be achievable and a priority, as recommended in this paper, the immediate next step would be to get feedback from the Government on specific tasks for which it would desire support. This would allow us to discuss this initiative with USAID and to seek their approval for doing further work.
- *Incremental reform:* If comprehensive reform is not a priority, but there is a desire (as we believe there is) to at least move forward with incremental reform of stamp duties in selected areas, we would again request feedback from the Government on the areas where it would like further support from the TAPR II project.

There are a number of areas where further analysis could usefully be conducted, depending upon the scope of the planned reforms for stamp duties. These include:

- Further analysis of the collections data, particularly related to i) the two categories of unclassified data and ii) the split of government duties between salaries and purchases.
- Further review of insurance taxation, with input by TAPR II insurance advisors, to help establish: i) recommended tax rate on premiums; ii) conventional tax treatment of annuities; and iii) revenue implications of reform recommendations.
- Further analysis of development duties and how to integrate them into the stamp duty reform program.
- Analysis of budget-related actions needed in association with i) substituting increased fees for duties; and ii) eliminating the duty on government purchases.
- Determining the revenue impact of proposed changes in the GST to accompany stamp duty reform.
- Assessment of the issue of how to deal with the hundreds of stamp tax employees, whose work would be eliminated, from both human resources and organizational perspectives.

EXHIBIT I

Exhibit I: Stamp Duty Rates

<u>Chapter No.</u>	<u>Article No.</u>	<u>Description</u>	<u>Duty Amount LE (or Piastres)</u>	<u>Supplementary Comments</u>
1	39	Educational Certificates: Final Primary Stage Certificate Final Preparatory Stage Certificate (all types) Basic Educational Stage Certificate Secondary Stage Certificate (all types) Bachelor's Degree Certificate Higher Studies Diploma Masters Degree (Certificate) PhD Certificate	1.2 2.1 6 9 15 30 30 60	Rates reflect changes from Laws 104/1987, 224/1989, and 2/1993
1	40	Other Certificates (same duty applies to all that follows) 1. All government certificates (except certificates covered in Art. 39) 2. Certificates issued from: a. Chambers of Commerce, Agriculture, Industry or Tourism b. Trade unions and professional associations c. Sports and social organizations, establishments and societies d. Bonded warehouses e. Consumers' and producers' cooperative units f. Any commercial or industrial establishment	90 Piastres	
2&3	41-43	Copies and Extracts	Repealed: Law No. 2/1998	
4	44	Contracts or Attestations (whether civil or commercial)	90 Piastres	

Exhibit I: Stamp Duty Rates (cont.)

<u>Chapter No.</u>	<u>Article No.</u>	<u>Description</u>	<u>Duty Amount LE (or Piastres)</u>	<u>Supplementary Comments</u>
4	45	Copies of contracts pertaining to each party to the contract	90 Piastres	
5	46	Contracts of Marriage or Divorce: 1. Duty applicable to contract of marriage 2. Duty applicable to divorce document	15 30	
6	47	Commercial Maritime Documents 1. Survey reports 2. Certificates related to loaded or unloaded merchandise 3. Damage declarations and other instruments	90 Piastres	
7	48	Companies' Minutes 1. Each paper of minutes concerning Board meetings 2. Each paper of ordinary and extraordinary meetings of companies	90 Piastres	
8	49	Judiciary Papers 1. Court orders for enforcement of foreign judgments in Egypt 2. Warrants or indictments passed by the judges 3. Judiciary publications	90 Piastres	
9	50-51	Insurance Installments 1. Premiums related to life or health insurance, personal injury, etc. 2. Transportation insurance amounts: land, river, maritime, and air 3. Other insurance premiums 4. Capital amount of annuity contracts 5. Total premium amounts collected by insurance companies	3% 15% 20% 4% 0.80%	

Exhibit I: Stamp Duty Rates (cont.)

<u>Chapter No.</u>	<u>Article No.</u>	<u>Description</u>	<u>Duty Amount LE (or Piastres)</u>	<u>Supplementary Comments</u>
10	52	Commercial Papers 1. Duty on each bill of exchange, promissory note or bearer bond	3	Note: changed from proportional to specific: Law 156/2004
10	53	Checks of all Kinds	30 Piastres	
11	54-56	Receipts, Acquittances, and Invoices Marked "Paid"	30 Piastres	
12	57	Bank Written Acts and Deeds 1. Opening of a credit 2. Bank transfer orders 3. Loans, advances and declarations of debt	0.10% 0.60% Graduated: 0.2% to 0.8%	
12	58-59	Bank Written Acts and Deeds (cont.) 1. Bank accounts 2. Adjustment notes in banks 3. Bank transfer orders 4. Account return statements and extracts 5. Collection dockets of stock profit shares and bond interests 6. Letters of guarantee and warranty contracts a. Letters of guarantee b. Warranty contracts, commercial papers guarantee, etc.	LE15 per annum 30 Piastres 60 Piastres 30 Piastres 20 Piastres 30 pounds 3 pounds	

Exhibit I: Stamp Duty Rates (cont.)

<u>Chapter No.</u>	<u>Article No.</u>	<u>Description</u>	<u>Duty Amount LE (or Piastres)</u>	<u>Supplementary Comments</u>
13	60-66	Publicity and Advertising		
		1. Each copy of advertising published on paper: or pasted in public roads		
		a. Pasted in public roads	40 Piastres	
		b. Pasted in other than public roads	75 Piastres	
		2. Each copy paper advertising enhanced to last longer	1.45	
		a. Advertising made on an annual calendar	18 Piastres	
		b. Other	1.45	
		3. Each copy of advertising made on other than paper		
		a. Non-gift advertising	3.6	
		b. Gift of advertising	30 Piastres	
		c. Medical samples	Exempted	
		4. Advertising published in or together with entertainment programs	3.6 per week	
		5. Advertising illuminated with a fixed light	14.4	
		6. Advertising illuminated with non-stable or intermittent light	144	
		7. Advertising fees charged related to movie houses or TV concerns	36%	
		8. Advertising fees charged for broadcast radio	24%	
		9. Advertising fees published on paper or matches covers	14.40	
		10. Advertising fees charged for newspapers, magazines, etc.	36%	
14	67-70	Transportation Services		
		1. Transportation of Persons		
		a. First class railway transportation ticket subscription ¹	5.4	¹ Reduced by 50% if subscription if less than 3 months
		b. Second class railway transportation ticket ¹	2.7	
		c. Public transportation subscriptions within/between towns ¹	55 Piastres	
		d. Free subscriptions or travel permits	5.4 per annum	
		e. Reduced subscription or travel permit	1.2	
		f. Each "wagon-lit" ticket of the railways	2.7	

Exhibit I: Stamp Duty Rates (cont.)

<u>Chapter No.</u>	<u>Article No.</u>	<u>Description</u>	<u>Duty Amount LE (or Piastres)</u>	<u>Supplementary Comments</u>
		g. Each distinguished first class ticket	1.1	
		h. Each distinguished second class ticket	75 Piastres	
		l. Each first class ticket for travel by ships	10.8	
		j. Each second class ticket by travel by ships	8.1	
		k. Each third class ticket by for travel by ships	2.7	
		l. Each air ticket for traveling abroad	10.8	
		m. Each air ticket for traveling within Egypt	2.7	
		2. Transportation of Cargo		
		a. Each paper of a maritime bill of lading	1.62	
			18% up to 60 Piastres	
		b. Transport fees on bills of lading		
15	71-73	Postal Services		Repealed: Law No. 2 1998

<u>Chapter No.</u>	<u>Article No.</u>	<u>Description</u>	<u>Duty Amount LE (or Piastres)</u>	<u>Supplementary Comments</u>
16	74-78	Gambling Profits and Lottery Prizes		
		1. Tax on amounts appropriated for payment to horse race betterers, et al.	60%	
		2. Tax on lottery prizes:		
		a. Amounts appropriated for prize winners	60%	
		b. benefits by stockholders, the insured, through ballot drawings	30%	

Exhibit I: Stamp Duty Rates (cont.)

<u>Chapter No.</u>	<u>Article No.</u>	<u>Description</u>	<u>Duty Amount LE (or Piastres)</u>	<u>Supplementary Comments</u>
17	79-82	Amounts paid by Government Departments and Public Sector Companies		
	79	1. Tax on government salaries, wages and bonuses	Graduated: 0.6% to 0.8%	
	80	2. Tax on other government payments	6x Above Amounts	
18	83-88	Securities and Their Negotiation	Repealed: Law No. 11 1995	
19	89-92	Administrative Licenses and Permits		
	89	1. Permits	90 Piastres	
		2. Licenses issued by an administrative authority:	3,0	
		a. License for the exploitation of a mine or quarry	300 per annum	
		b. License to run entertainment or amusement houses	300 per annum	
		c. License for the exploitation of a brick making plant	300 per annum	
		d. Building license	30 to 60	
		e. Registration license: truck of 5-ton capacity or less	12 per annum	
		f. Registration license: truck with a capacity of 5 to 15 tons	15 per annum	
		g. Registration license: truck with a capacity of more than 15 tons	18 per annum	
		h. Each license for a public place	12 per annum	
		I. Each butcher's shop or place of manufacturing	18 per annum	
		j. Registration license: passenger vehicles of 4 cylinders or less	6 per annum	
		k. Registration license: passenger vehicles of more than cylinders	12 per annum	
		I. License for the import or transport of arms or ammunitions	6 per annum	

Exhibit I: Stamp Duty Rates (cont.)

<u>Chapter No.</u>	<u>Article No.</u>	<u>Description</u>	<u>Duty Amount LE (or Piastres)</u>	<u>Supplementary Comments</u>	
20	93-94	Incorporation of Companies			
		93	Company formation		
			1. Joint stock companies	1800	
			2. Partnerships limited by shares and limited liability companies	900	
			3. Partnership or joint liability company with capital exceeding LE 5000	90	
		94	Increasing capital of companies		
		1. Joint stock companies	120		
		2. Partnerships limited by shares and limited liability companies	60		
21	95	Registers, Entries Therein and Distribution of Supply Materials			
		1. Registration of each commercial agent or representative of a foreign firm	900		
		2. Renewal of commercial agent or representative	540		
		3. Amending the registered data on the Commercial Agents Book	180		
		4. Each entry in the Commercial register, and on renewal of such entry	30		
		5. Duty for joining or contributing to professional association or chamber of commerce	1.8	Annual fee subsequently is .90 Piastres per annum	
		6. Registration of each new student in private schools or academies	3		
		7. Each paper of the registers prescribed in Arms and Ammunitions Law	30 Piastres 10 Piastres per month		
		8. Duty on the distribution of supply rations by ration cards			

Exhibit I: Stamp Duty Rates (cont.)

<u>Chapter No.</u>	<u>Article No.</u>	<u>Description</u>	<u>Duty Amount LE (or Piastres)</u>	<u>Supplementary Comments</u>
22	96-98	Supply and Consumption of Water, Electricity, Gas and Butane Gas 1. Access to supplying each of water, electricity and/or gas 2. Duty per KW/H of electricity consumed for household or commercial purposes 3. Duty per each 10 KW/H of electricity consumed for industrial purposes 4. Duty on each cubic meter of gas consumed for non-industrial purposes 5. Duty on each kilogram of butane gas consumed for non-industrial purposes 6. Duty per ton of gas or butane gas consumed for industrial purposes	3 per annum 3 Piastres 0.6 Piastres 3.6 Piastres 9 Piastres 3	Numerous exemptions in Article 98!
23	99-100	Telecommunications Subscriptions 1. Each telephone subscription 2. Each Telex subscription	6 300	
24	101	Weight Certificates and Lists 1. Each weight certificate and license issued to weighing operations for the public	50 Piastres	
25	102	Financial Position and Wealth Declarations	Repealed by Law No 2/1998	
26	103	Granting the Egyptian Nationality	1200	

Exhibit I: Stamp Duty Rates (cont.)

<u>Chapter No.</u>	<u>Article No.</u>	<u>Description</u>	<u>Duty Amount LE (or Piastres)</u>	<u>Supplementary Comments</u>
27	104-106	Sensitive Scales and Calculating Machines 1. Duty on each scale that operates by inserting a coin therein 2. Duty on each device depending for its operation on skill or coincidence 3. Duty on each cash registration machine	9 per annum 36 per annum 15 per annum	

EXHIBIT II

Exhibit II: Stamp Tax Collection 7/1/99 - 6/30/05 (LE Thousands)

Ch	Type	FY Ending 6/30/99	FY Ending 6/30/00	FY Ending 6/30/01	FY Ending 6/30/02	FY Ending 6/30/03	FY Ending 6/30/04	FY Ending 6/30/05
17	Government Payments	708,272	678,829	551,060	626,904	836,359	989,977	1,174,278
	Documents							
1	Certificate and documents	811	1,618	1,457	1,393	904	1,898	878
4	Contracts and the like	80,370	86,212	66,115	65,688	56,275	45,378	63,908
5	Marriage documents	0	0	82	0	0	0	0
6	Maritime documents	6,639	4,313	7,088	6,065	6,723	13,874	1,878
7	Companies reports	92	54	406	0	0	0	0
8	Ministry of Justice documents	821	370	607	3	1	0	0
11	Receipts and invoices	201,903	210,629	217,941	267,342	248,258	247,310	376,810
21	Subsidy cards	26,822	21,296	25,602	20,171	26,582	19,364	19,557
24	Weight certificates and lists	2	0	62	11	1	0	5
26	Egyptian nationality							
	Subtotal: Documents	317,461	324,493	319,360	360,673	338,743	327,825	463,034
	Non-Financial Services							
13	Advertisements	63,675	88,014	36,362	31,788	32,090	29,494	27,710
14	Transportation services	73	837	105	54	1,180	98	126
16	Lottery and bets	8,694	20,825	27,212	45,209	9,017	15,612	19,861
22	Gas and electricity	273,167	357,539	338,512	250,390	251,410	248,596	229,815
23	Water, telephone	38,258	24,537	103,225	164,532	205,155	229,729	306,014
27	Scales and calculators	5,720	6	0	21	1	1	0
	Subtotal: Non-Financial Services	389,587	491,758	505,417	491,993	498,853	523,530	583,526

Exhibit II: Stamp Tax Collection 7/1/99 - 6/30/05 (cont'd)
(LE Thousands)

19	Administrative permits & licenses	1,099	1,068	1,273	1,196	1,486	1,426	906
	Corporations							
18	Stocks (repealed in 1998)	12,842	-30,615	189,772	249,309	81,149	0	33
20	Incorporation	193	444	161	149	111	121	417
	Subtotal: Corporations	13,035	-30,172	189,933	249,458	81,261	121	450
	Bank-related documents & services							
12	Bank documents and services	219,243	207,684	260,747	280,107	227,271	190,830	202,261
10	Commercial documents	10,824	11,851	9,983	8,223	6,050	11,369	3,361
	Subtotal: Bank-related	230,067	219,535	270,729	288,329	233,321	202,199	205,622
9	Insurance	225,011	273,752	246,969	234,570	199,795	262,327	492,760
	Papers and stamps	126,872	172,722	223,555	185,312	191,686	151,168	192,400
	Miscellaneous stamps	648,583	668,089	581,033	652,409	725,122	907,103	734,794
	TOTAL	2,429,919	2,580,539	2,618,600	2,802,514	2,873,306	3,163,478	3,847,770

EXHIBIT III

Exhibit III - Stamp Tax Collections for FY 2005 (LE Thousands)

Chapter	Type	Amount Collected	Percent of Total	Lowest Five Revenue Producers	Lowest Ten Revenue Producers
17	Government Payments	1,174,278	30.52%		
	Documents				
1	Certificate and documents	878			878
4	Contracts and the like	63,908			
5	Marriage documents	0		0	0
6	Maritime documents	1,878			
7	Companies reports	0		0	0
8	Ministry of Justice documents	0		0	0
11	Receipts and invoices	376,810			
21	Subsidy cards	19,557			
24	Weight certificates and lists	5			5
26	Egyptian nationality	0		0	0
	Subtotal: Documents	463,034	12.03%		
	Non-Financial Services				
13	Advertisements	27,710			
14	Transportation services	126			126
16	Lottery and bets	19,861			
22	Gas and electricity	229,815			
23	Water, telephone	306,014			
27	Scales and calculators	0		0	0
	Subtotal: Non-Financial Services	583,526	15.17%		

Exhibit III - Stamp Tax Collections for FY 2005 (cont.)
(LE Thousands)

19	Administrative permits & licenses	906	0.02%		
	Corporations				
18	Stocks (repealed in 1998)	33			33
20	Incorporation	417			417
	Subtotal: Corporations	450	0.01%		
	Bank-related documents & services				
12	Bank documents and services	202,261			
10	Commercial documents	3,361			
	Subtotal: Bank-related	205,622	5.34%		
9	Insurance	492,760	12.81%		
	Papers and stamps	192,400	5.00%		
	Miscellaneous stamps	734,794	19.10%		
	TOTAL	3,847,770	100.00%	0	1,459

EXHIBIT IV

Exhibit IV: Development Duty Rates

<u>Item No.</u>	<u>Article No.</u>	<u>Description</u>	<u>Duty Amount LE (or Piastres)</u>	<u>Supplementary Comments</u>
1	1	Duty on Revenues in Excess of LE 18,000 per annum	Repealed	
2,3,4,5		Duty on Passports, Foreigner's Residence, Applications for Egyptian Nationality, Departure from the Country		Rates reflect amendment from Law No. 5/1986
		Issue or renewal of a passport	54.4	
		Conciliation involving delay in registration of an alien's residence	20	
		Conciliation involving delay in notification of an alien, or his departure or his employment	20	
		Conciliation involving failure of notification before change of residence location	20	
		Conciliation with an alien related to failure to obtain or renew the residence license	50	
		Applications for residence	5	
		Applications for residence certificate	5	
		Annual fee when residence license or card is issued	30	
		Visa for return to Egypt	5	
		Applications for acquiring Egyptian Nationality	50	
		On departure from Egypt	5	
6		Duty on Arms Licenses	25	
7		Duty on Work Permit		
		Permit to work abroad or for a foreign entity working in Egypt	50	
		For each year on renewal of the work permit	100	

Exhibit IV: Development Duty Rates (cont.)

<u>Chapter No.</u>	<u>Article No.</u>	<u>Description</u>	<u>Duty Amount LE (or Piastres)</u>	<u>Supplementary Comments</u>
8		Duty on Issue of Private Vehicles Licenses and Driving Licenses		
	A.	Private Vehicle Licenses		
		Vehicles with engine capacity that does not exceed 1000cc	16	
		Vehicles with engine capacity between 1000 and 1300cc	23	
		Vehicles with engine capacity between 1300 and 1600cc	25	
		Vehicles with engine capacity between 1600 and 2000cc	120	
		Vehicles with engine capacity between 2000 and 2500cc	280	
		Vehicles with engine capacity of 2500+ and pre-1980 production	350	
		Vehicles with engine capacity of 2500+ and 1980 or later production	500	
	B.	Driving Licenses for Fast Transport Vehicles		
		Private driving license	20	
		First, second or third class driving license	9.6	
		License for driving instructor, motorcycles, ag. tractors	9	
		Temporary license for driving instruction learner	4.4	
	C.	Duty for extraction of license duplicate substituting lost or damaged license	4.4	
9		Duty on Instruments and the Rest of Bases Subject to Specific Stamp Duty	10 Piastres	
10		Duty on Extraction of Copies of Instruments From the Real Estate Registration and Notarization Department (per page)	1	
11		Duty on Certificates of Military Recruitment Exemption	1	
12		Duty on Purchases from Duty Free	US\$1 per Item	Applicable to commodities priced at >\$5
13		Duty on Auction Sales	5% of Sale price	Repealed by the Constitutional Court
14		Duty on Tickets for Traveling Abroad		
		First class	25%/Max of LE 150	
		Other classes	25%/Max of LE 100	

Exhibit IV: Development Duty Rates (cont.)

<u>Chapter No.</u>	<u>Article No.</u>	<u>Description</u>	<u>Duty Amount LE (or Piastres)</u>	<u>Supplementary Comments</u>
15		Duty on Parties and Entertainment Services Held in Hotels and Public Touristic Places		
		First LE 15,000	20%	
		Second LE 15,000	30.00%	
		Amounts in excess of LE 30,000	40.00%	
16		Duty on Chalets, Cabins and Kiosks Located in Summer and Winter Resorts		
		Tax on applicable rental value	20%/Minimum of LE 50	

EXHIBIT V

Exhibit V: Development Duty Collections*: FY 2004 (in LE Thousands)

Ch	Type	FY Ending 6/30/04	FY Ending 6/30/04 Largest Duties	FY Ending 6/30/04 Smallest Duties
	Above 18,000 a year (repealed)			
2,3,4,5	1 Passports, visas, nationality	110,150	110,150	
	6 Weapons licenses	2,534		2,534
	7 Work permits	4,368		4,368
	8 Cars licenses	65,100		
	8 Cars	1,254		1,254
	Documents and stamp tax bases	125,733	125,733	
10	Document copies	3,003		3,003
11	Military exemption certificates	850		850
12	Duty free purchases	15,138		15,138
13	Auction sales (repealed)			
14	Airway tickets	116,307	116,307	
15	Banquets	21,738		
16	Beach cabins, kiosks	1,256		1,256
	Total	467,431	352,190	28,403
	Percentage		75%	6%

**Excludes collections from provisions repealed in 2005 (Chapter 1)*

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