TAXATION

RESPONSIBLE ENTITIES:

- The Egyptian Tax Authority
- The Ministry of Finance

CHALLENGE	RECOMMENDATION	STATUS/NOTES
Taxes place a significant burden on industrial activities as they result in higher prices, thereby making products less competitive. Among the most significant tax-related challenges facing manufacturers are the following: - The ambiguity of the law and its executive regulations opened the door to unduly discretion in interpreting the law and its regulations, which resulted in varying interpretations within the same agency. A good case in point is the tax treatment of specialized industrial processes related to a number of industries, including food, detergents pharmaceuticals, cosmetics, and paper pulp (e.g., pulp of wood or of other fibrous cellulosic material).	Eliminate ambiguity in all tax-relevant laws, regulations and guidelines, and simplify them in order to limit the discretionary power of tax administrators. Form a small committee consisting of the directors of the Tax Authority and the Customs Authority, a deputy of the Minister of Finance, the chairman of the FEI (or who he may delegate), and representatives of the chambers of industry. The committee should be tasked with studying the tax- and customs-related procedural and legal obstacles facing industrial investors, coming up with practical solutions, and taking decisions that can have a quick impact on the ground. The Ministry of Finance should sign a protocol with the Organization for Economic Cooperation and Development (OECD) to develop tax treatment systems, which are aligned with global best practices in tax administration and enhance investor confidence in tax reforms.	

-The continued practice of subjecting taxpayers to arbitrary tax assessments, and the disregard of balance sheets and tax returns that they submit.		
Prolonged delays in tax examination sometimes reaching 10 and 15 years, which result in businesses incurring additional financial burdens represented in delay penalties and an additional tax that exceeds the original tax.		
To interrupt the statute of limitations, tax offices issue arbitrary tax assessments that do not take into account the tax returns submitted by the business; the estimated tax liability may exceed sales. This practice complicates the process and results in a reassessment, even if five years (the statute of limitation period stipulated in the law) have already elapsed.		
On examining tax returns, tax officers disregard the records and documents submitted by the taxpayer; in this case, examining officers who claim that a violation exists must prove this violation and distinguish tax evasion from mistakes due to human error.	Cease the practice of arbitrary tax assessments; ensure the full and consistent application of the law—tax returns submitted by investors must be honored. Conduct random reviews of tax returns, in case of inconsistencies, the tax returns should be reassessed.	
A disconnect and lack of coherence among the various divisions within the tax office—the commercial inspection, the salary tax, the stamp tax, and deduction at source. This results in wasting the time of both the taxpayer and the tax officer since redundant files, containing the same documents, are prepared for examination by more than one officer, sometimes at the same time. The examination process must be consolidated to avoid wasting the time of taxpayers and tax officers.	Tax authorities should endorse an enterprise's approved balance sheets (prepared within the past five years), in order to resolve tax disputes and collect taxes due in a timely manner.	
The Intransigence of the tax office with regard to the examination of tax files that are unlikely to generate revenues; no due regard is given to considerations related to tax compliance and satisfying all documentation requirements.		
Without first exhausting all amicable options, tax offices rush to issue administrative orders to attach all funds belonging to a business, instead of attaching the equivalent of the amount of the taxes that is actually due; this practice disrupts the daily operations of the business until the attachment is lifted.		

In some cases, the Tax Authority does not recognize double taxation avoidance agreements. This, in turn, has a negative impact on Foreign Direct Investment (FDI) flows to Egypt.	Comply with the double taxation avoidance agreements in order to encourage the flow of direct foreign investment to Egypt.	
The imposition of a value-added tax on capital goods, which results in higher production costs and thus weakens competitiveness in international markets.	Eliminate the VAT on capital equipment used in production. Tax returns should be filed electronically during the month following the end of the tax period. Include services in the exemptions stipulated in Article 27 of the VAT Law. Add "public entities" to the group of entities that qualify for VAT exemption as per Article27 of the VAT Law, which allows the Minister of Finance, in agreement with the competent Minister, to exempt some goods and services from VAT in the event that they are granted, donated or gifted to the administrative body of the state or local administration units. Upon departure, international visitors, who have stayed in Egypt for a period not exceeding 3 months, should be entitled to receive a refund of the taxes they paid to VAT-registered sellers for purchases of taxable goods, provided that the invoice value is not less than LE 1,500, and the purchased items leave the country with the visitor, or by another mean. Grant the head of the Tax Authority, or whoever he delegates, the authority to authorize a 3-month temporary release of incoming shipments that are designated to be used in production or for carrying out business activities; this authorization should be done in accordance with the guarantees that the Customs Authority deems appropriate until the concerned individual provides the Tax Authority, during that period, with the necessary documents for reviewing the exemption request, or otherwise pay the due taxes, along with any additional tax.	

The raising of the VAT registration threshold to LE500,000, in the accordance with the Value-Added Tax Law, will lead many enterprises to exit the formal economic sphere, and thus the state coffers lose out on potential tax revenues.	Adopt a lump-sum tax regime, whereby a fixed amount of money is collected from enterprises—a flat tax. The collected amount should not be subject to any increase except if a review of invoices and other relevant documentation revealed that the amount of taxes due exceed the amount paid by the enterprise. Give serious consideration to implementing the tax facilitation and procedural simplification measures proposed by the Ministry of Trade and Industry in the Micro, Small, and Medium-sized Enterprises draft law. Develop a simplified tax system for small and medium-sized enterprises under the unified tax system in order to reduce the tax burden and compliance costs for these enterprises; at the same time, introduce a lump-sum tax regime tax for micro enterprises.	On July 13, 2020, the President ratified the Micro, Small, and Medium-sized Enterprises Development Law (No. 152 of 2020); it includes provisions intended to facilitate financing and the starting up of operations, in addition to offering incentives for MSMEs, including permanent simplified methods for tax treatment.
The very lengthy process that exporters have to go through to reclaim the VAT incurred on inputs, raw materials, and supplies used in the production process; while the right to reclaim these funds expires in two years, the refunding process could take years.	Streamline the VAT refund procedures for exporters and accelerate the release of the VAT refunds owed to enterprises so that they can recover their refunds before the lapse of the two years (the set timeframe for reclaiming refunds) and use them towards expanding production and exporters.	
The Decree No. 484 issued by the Minister of Finance imposes a late payment penalty for failure to pay the tax amount on time, regardless of the reason for the delay—whether it is a case of tax evasion, or the taxpayer is awaiting the resolution of a tax dispute.	When imposing a late payment penalty on taxpayers, differentiate between cases of clear tax evasion and other cases which involve tax disputes. In the latter cases, no penalty should be imposed.	

The imposition of a real estate tax on industrial enterprise and health care facilities. Enterprises across all industrial sectors suffer from the overestimation of the price per square meter of land and buildings for industrial establishments, and the consequent overestimation of the rental value; this has generated a general sense of discontent over the real estate tax in its current structure and resulted in continual disputes over these taxes. Some tax offices refuse to set up installment plans for paying the real estate tax debt; they insist that businesses pay the entire due amount in one single payment, otherwise, their bank accounts become frozen; in some cases, some businesses are threatened with other legal action. Such actions are taken without taking into account the economic situation of the business and its reputation, which may be tarnished in the eyes of the bank due to the freezing of accounts; such practices result in countless disputes and disagreements between the tax offices and business taxpayers.	Issue a new law that eliminates the real estate tax on factories, health care facilities, and free zones.	
The existence of multiple tax files and taxpayer identification numbers for the same enterprise in different government entities.	Issue a single national taxpayer identification number for each enterprise to be used for reporting the different types of applicable taxes (income tax, VAT, customs duties, insurance, and others). Introduce a method of combined reporting for VAT and income tax—filing a single tax return that combines the VAT return and income tax return. This will facilitate offsetting claims and obligations by the Tax Authority.	