

VAT Law



LAW



EGYPT

BACKGROUND:

The Value-Added Tax (VAT) Law was drafted and approved by the cabinet in May 2016. The House of Representatives approved the draft law in August 2016. The law went into effect when President Abdel-Fattah El Sisi ratified it and it was published in the Official Gazette in the edition dated September 7, 2016. The VAT Law was amended in November 2017 to increase the taxation rate on cigarettes and shisha tobacco.

SUMMARY:

The VAT Law **replaced** the existing 10 percent sales tax with a new VAT. The rate was initially set at 13 percent, and increased to 14 percent in July 2017, the start of the fiscal year following the law's ratification. Although the VAT Law applies to a broad range of goods and services identified by the text, it also exempts

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56 basic goods and services, including all military-owned businesses, in order to ease the burden on those considered economically vulnerable. Additionally, the law **amplifies** the punishment for tax evasion, with violators facing imprisonment of three to five years and a fine between 1,000 and 10,000 Egyptian pounds (LE). Important to note, however, is that tax evasion claims can only be initiated upon the minister of finance's request, raising concerns about possible unfair application.

SIGNIFICANCE:

The VAT Law is **expected** to streamline tax collection, broaden the tax base, and formalize the informal economy, bringing additional revenue to the government. The VAT Law replaced the previous sales tax scheme with one designed to make revenue collection easier and tax evasion more difficult. Upon the law's approval, concern existed about the degree to which the VAT Law would be properly enforced and whether businesses may end up taking advantage of weak enforcement. This problem in part led to the Egyptian Tax Authority **streamlining** VAT submission for businesses by requiring them to submit monthly statements electronically. Additionally, because the VAT is applied to purchases, those who **spend a greater share** of their income on purchases—primarily lower income brackets—may shoulder a heavier share of the tax burden.

LEGAL CONTEXT:

The VAT Law repealed the General Sales Tax Law (Law No. 11 of 1991).

POLITICAL CONTEXT:

The VAT Law was drafted, approved, and ratified to help implement the terms established and reforms agreed with the International Monetary Fund when it issued its \$12 billion loan to Egypt. Part of these reforms included expanding the tax base and generating additional tax revenue, as Egypt possessed a low percentage of tax revenue to GDP at the time of the law's ratification.

ADHERENCE TO LEGAL NORMS:

Article 27 of the Egyptian Constitution commits the country's economic system to take "into account the financial and commercial balance and a fair tax system." Further, Article 38 notes that "the state commits to the development of the tax system and adoption of modern systems to achieve efficiency, ease, and accuracy in tax collection." Ratified in this legal context, the VAT Law sought to modernize the Egyptian taxation scheme; however, successful implementation of the VAT and its impact on society in the coming years will determine whether the tax is meeting its constitutional mandate to achieve efficiency, ease, and accuracy.

IMPLEMENTATION:

Results for fiscal year 2017–18 budget results recorded LE781.1 billion in revenue, up 18.5 percent from the previous fiscal year. This included LE261 billion in VAT, which rose by LE79 billion from the previous fiscal year. VAT has been implemented with a bias, though, as businesses owned by the military are exempt from the VAT policy. This exemption disproportionately impacts private-sector businesses, as defense industrial plants are not taxed on products purchased for very loosely-defined 'national security' purposes, whereas private-sector businesses are required to pay the tax in its entirety.

TEXT:

The official text of the VAT Law is available [here](#) in Arabic. The official text of the VAT Law's November 2017 amendment is available [here](#) in Arabic.

▶ TIMEP COVERAGE:

- "Investment Law" (TIMEP Brief)
- "Egypt's Payroll Is Fine, but Its Revenues Are Too Low" (TIMEP Commentary)
- "A Monetary Theory of Everything: 'Printing' New Money and Egypt's Economic Ills" (TIMEP Commentary)
- "The IMF's Overly Optimistic Review of Egypt" (TIMEP Blog post)