The parliament is discussing three income tax rate amendment proposals

Media reports noted that the Egyptian parliament is considering different proposals to amend the income tax law. Pending the review of the Ministry of Finance, one proposal suggests modifying tax brackets to include a 25% tax rate on annual income above EGP505k, which was previously cited at 30%.

Four amendments in four years!

It has become a tradition for every cabinet since 2012 to readjust income tax brackets and corresponding rates. Originally introduced in 2005, the Egyptian income tax law was revisited in 2012,2013,2014 and 2015 (Fig#1). Ironically, in 2016, it is the parliament that seems to be pushing for the change, while the government does not share such an enthusiasm. Recently, the Minister of Finance sounded clearer about the importance of tax policy stability.

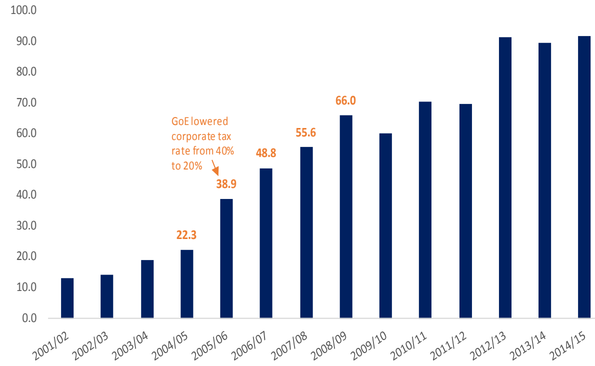
Egyptian tax reform in 2005 speaks loud and clear against another tax rate hike

In 2005, the government initiated broader tax reform measures, through which the taxation of corporate profits was capped at a 20% flat rate, down from 40%. In return, corporate profit tax revenue doubled in two years from EGP22.3 billion in FY2004/05 to EGP48.8 billion in FY2006/07 (Chart 1). As a % of GDP, corporate profit tax revenue rose from 4.1% in FY2005/06 to 6.6% in FY2006/07 (Chart 2). The logic is quite simple; lowering the corporate tax rate in addition to easing tax collection/ refund procedures encouraged more investments and payments and accordingly resulted in higher tax revenue.

More focus shall be directed to improve and simplify tax payment procedures

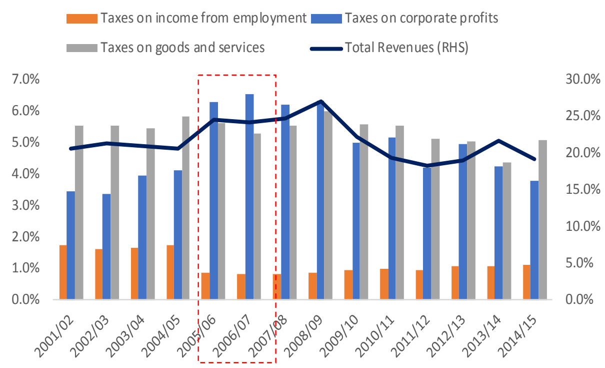
Egypt's corporate tax rate stands middle-ground, albeit slightly higher, versus key regional peers (i.e. Turkey, Saudi Arabia) (Chart 3). However, assessing the efficiency of the tax system in terms of how easy businesses can pay its taxes provides another less appealing ranking for Egypt (Chart 4). Therefore, we believe that improving the ease of doing business in Egypt shall remain a key priority. Given the magnitude of the informal sector, Egypt can still raise more tax revenues without raising the tax rate.

Chart 1 I Corporate tax revenues doubled two years after setting a lower tax rate



Source: Ministry of Finance, Pharos Research

Chart 2 I Corporate tax revenues rose to 6.6% of GDP in FY2006/07



Source: Ministry of Finance, Pharos Research

Figure 1 I Income tax law amendments:

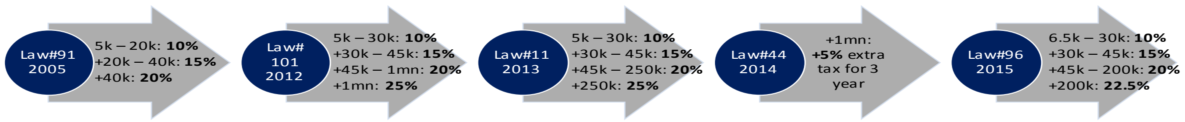


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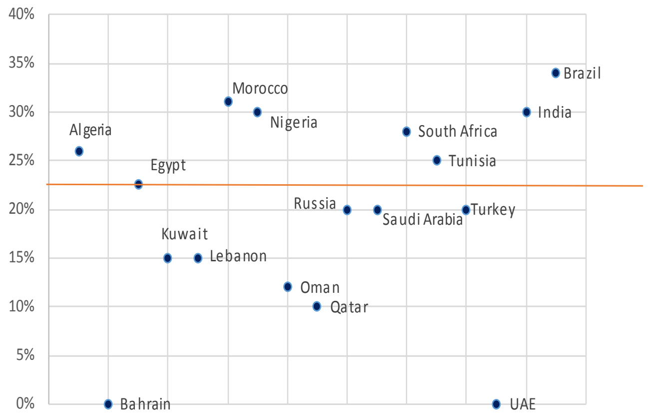
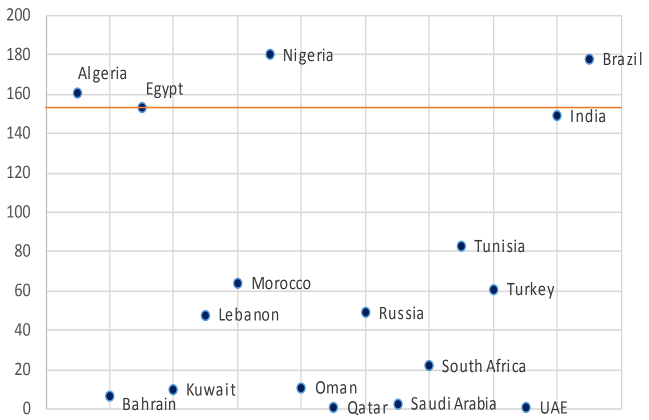
Chart 3 l Corporate tax rates in 2016



Source: Deloitte (March 2016), Pharos Research

Chart 4 l World Bank 2017 Paying Tax Ranking



Source: World Bank, PWC, Pharos Research

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