Taxes and Social Justice

Policy Brief

EGYPT

Towards a tax approach to the economic crisis

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Background

According to Marxist circles, the history of the capitalist economy is the history of successive disasters. One of the most vivid examples in this regard is the history of the Egyptian economy, which has been characterized by successive disasters since the rule of Mohammed Ali and his family. Most rulers tried to uproot the Egyptian economy from its material factors to cope with the whims and prejudices of its regime. The economic disasters had two main aspects; first, borrowing more than the economy's potential to generate enough revenues to pay, second is the impoverishment of the people through unfair fiscal policies that undermine the rights and aspirations of citizens to finance government debts. This context of injustice and impoverishment shaped the history of the Egyptian economy in general and its tax structure in particular.

The Egyptian tax structure is still based on the problem of indebtedness. Every reform, adjustment or economic tendency, and every government decision refer primarily to debts and how to cover their cost.

The current tax system resulted from the neoliberal policies that have been hastened by Youssef Boutros-Ghali. Ghali served as Minister of Finance after more than a decade of the 1990-91 crisis that threatened the Egyptian economy with bankruptcy and made from neoliberal policies in Egypt the basis of economic growth that avoids financial crises. Since he took over, it was expected that Ghali empowers and turns these policies into the only basis of economic policies and the pillar of tax policies, and so he formed a tax system that favored businessmen at the expense of workers. The policies adopted by Youssef Boutros-Ghali, the Egyptian Minister of Finance before the January 2011 revolution, i.e. the income tax of 20% for all segments, the real estate tax law, the reduction of customs duties, and the introduction of the VAT law, aimed at increasing tax revenues by encouraging investments, particularly foreign investments, to provide foreign currency for the debt service, and fulfill the country's import needs, regardless of the effects of these policies on the general public in terms of their ability to bear these burdens on the one hand, and the impact on the State's ability to serve the general public on the other hand. Today, more than six years after Ghali's departure and despite successive cabinets and the violent changes experienced by the Egyptian society and economy, Egypt's tax structure is still facing the same problems, despite claiming the pursuit of equality. The changes that occurred were either to expand Ghali's vision as in the case of applying and raising the VAT, or no more than cosmetic changes that had no significant impact on the State's financial ability as in the case of the deformed application of progressive tax segments.

Features of the current Egyptian tax structure:

Here we can figure out the real limits of tax justice in the face of government allegations. For example, the limit of tax exemption is less than the minimum wage claimed by workers at the time and estimated at LE 1,200, or LE 14,400 annually. In other words, a worker who gets one third of the minimum wage is required to pay taxes on this small wage.

The structure also saw odd leaps in the fourth and fifth brackets. The fourth bracket included all those whose income was between LE 3,750 and LE 16,666 per month, knowing that the difference was too high between the two classes. As for the fifth bracket, it started at just 16,666 per month, with no special segments for millionaires or billionaires.

Bracket	Income limit	Tax rate
First	LE 13,500 annually and less [1]	Exempted
Second	LE 13,500 to LE 30,000 annually	10%
Third	LE 30,000 to LE 45,000 annually	15%
Fourth	LE 45,000 to LE 200,000 annually	20%
Fifth	More than LE 200,000 annually	22.5%

As for companies, there had been many changes. The profit tax for companies was unified at 20% following the 2005 law except for the Central Bank of Egypt, the Suez Canal Authority and the Egyptian General Petroleum Corporation and its partners, which are committed to paying taxes according to the rates applicable before 2005 amendments, i.e. 40%. The government raised the tax rate to 25% in May 2013, bringing the real tax rate to 30% following the wealth tax that was supposed to be applied on companies, then the tax rate dropped to only 22.5% after 2015 amendments.

1 Without exceptions

It is truly shameful that some stakeholders pay less, such as companies in special investment areas that pay only 10%, or companies in free zones that are completely exempt from taxes and only pay 1% of their annual net profit to the General Authority for Investment (GAFI). This decline in favor of investors is one of the most important features of the Egyptian system. For instance, after the government approved a capital gains tax of 10% in 2014, it retreated due to investors' objections. This method of shameful and continuous retreat in the face of investors and the rich is what made the State unable to finance its activities forcing it to rely on debt.

Indirect taxes in Egypt were fully formed in light of economic crises. The sales tax was applied as per the requirements of the International Monetary Fund (IMF) in exchange for the 1991 loan package. VAT was applied to obtain the 2016 loan package. The government negotiated with international donor institutions for several years, and undertook for about five years to apply it until September 2016 when it issued law no. 67 of 2016 at the request of lenders. The law was issued including raising the tax general price from 10% to 13%, and then to 14% under the law in 2017. Despite several exceptions, the law is fundamentally flawed because it has unified the tax price by raising the price of some basic products and reducing the tax price on most luxury products, as if the law punished the poor for their poverty and rewarded the rich for their squandering.

The government expects the tax rate to increase to 14.7% in the 2017-18 budget. This is despite the fact that the government has historically failed to meet its expectations for the collection rate, except for the past year, taking advantage of the exceptional circumstances experienced by the country and the world economy, especially as a result of applying VAT. All indicators such as the continuous decrease of income and profit taxes as a percentage of taxes in general, the increase of the proportion of indirect taxes, continuous facilities for investors in the form of low corporate taxes, and collection at the expense of poor citizens, show clearly the tax injustice born by poor and middle classes, in a clear violation of the Constitutional rule relevant to tax justice, thus turning the provisions of the Egyptian Constitution into inefficient and ineffective mere words.

The need for a tax approach to the crisis:

It is almost impossible now to talk about the Egyptian economy - its present, its future, or its past - without addressing the current crushing economic crisis. Every talk about the past ends with how we would have avoided the crisis and every talk about the future revolves around the possibilities and how to get out of it. The nature of the crisis itself with all surrounding elements such as the crisis of foreign currencies and all that general description are not true. Although the weakness of foreign income and foreign reserves was at the heart of the crisis, this description neglects the administrative failure to raise the tax effort and the effective collection ability of the State, and focuses instead on the investment climate and global economic conditions. Therefore, the government avoids most of the blame, and then proposed reforms and debate would aim to ensure a better environment for investors without paying any attention to citizens.

By simply considering that the crisis is essentially a foreign currency one, we give up a broad ground to criticize the government's fiscal policies and allow these policies to pass being economically justified. Therefore, we thought that a tax approach to the economic crisis will allow us to discuss again its real reasons, namely the lack of desire to achieve tax justice, evading the responsibilities of social justice, and the lack of efficiency and vision in the State's financial institutions. This approach will also allow us to put the citizen instead of the investor in the heart of the crisis again. The citizen, as consumer and taxpayer, is the main funder, and as victim of the crisis, he is the primary concern. In addition, the interaction of citizens with the crisis is an opportunity to put the principles of tax justice at the forefront of public debate on the crisis and promote fair tax solutions to solve the funding deficit by addressing the worn-out structure that has already been explained.

General challenges:

Public function and the human rights action in Egypt face many difficulties as a result of the political circumstances and the security situation in the country. The first challenge are the laws governing the public function used to impose legal restrictions on organizations and individuals by imposing difficult requirements that force those wishing to work in the public sector to be subjugated to the considerations of national security, threatening the independence of their decision and their real ability to monitor the government and assess its performance. The second challenge is the lack of funding to Egyptian civil society organizations. The concern of funders about the sudden closure of these organizations in the light of the sudden and unexpected actions of the government makes them reluctant to finance. Therefore, the Egyptian civil society is deprived and forced to work with low salaries and to assign several programs to few workers, which negatively affects their ability to cover these programs. The end result of this deprivation is either the closure of these organizations under financial pressure, or their scaling down to the extent that they do not achieve their desired objectives. It is worth saying that this policy of deprivation is not a mere coincidence, but a systematic approach since the appointment of Faiza Abou el-Naga as national security advisor, as the safest way to crush the civil society without the use of direct violence that could incite the international community against the Egyptian government. Last but not least, the third challenge is the growing repressive climate in Egypt. In light of taking down more than 400 websites for security reasons, increasing arrests and forced disappearances, civil society activists live in conditions threatening their work and personal lives. This repressive environment directly affects the ability of the civil society to resume its work, from limiting its action, intimidating the public, and limiting its ability to sponsor or organize events, workshops or conferences.

Challenges within the tax approach:

To reach this stage of action, the majority of legal and financial challenges have been overcome. The main and most difficult challenge remains security which has two aspects. The first is limiting the ability to hold training workshops and conferences for two main reasons.

First, holding such conferences usually requires a security notice, which means that a workshop cannot take place if the notice is not obtained and exposing the organizers to security risks. Second, informants or security representatives of the government will be present, which would jeopardize the safety of the participants themselves. The second aspect is related to advocacy. It is difficult to establish formal advocacy alliances in a fragile security situation. Participants are exposed to security accountability as soon as one of the participating institutions is subjected to any legal accountability. The continued blocking of websites and the administrative takeover of several newspapers mean that public advocacy efforts in the press must come through broad coordination of these efforts so as not to expose advocacy activists to the risk of concealment or worse, acquisition.

To address these difficulties, it is necessary to rely on broad informal coordination based on direct personal relationships instead of formal institutional bonds to minimize any security risks that participants may face. Electronic sources should be relied upon for dissemination and circulation rather than printed newspapers, since, despite electronic blocking, these are subject to relatively less censorship than printed sources. The blocking can be circumvented in several ways (VPN) or the transformation of the site itself, which is impossible in case of censorship of publications. Finally, it is important to remember that there is no way to completely neutralize these risks, and that all these measures aim at minimizing exposure to risks as much as possible while maintaining the ability to publish and advocate.

Suggestions:

The framework of the general tax program for the coming year will be the tax approach to the crisis, and will be as follows:

1. Comprehensive research on the Egyptian government's tax policies before and during the crisis, the proposed collection policies in creditor's discussions and the policies applied in response to them (such as the migration to the VAT system and raising its pricing), their role in creating and deepening the crisis and the proposed role in recovery.

2. Activate the tax action group for researchers and experts to share visions on tax issues and activate the tax approach to the crisis in the coming year (2018).

3. Create an informal educational space for junior and interested researchers by holding training when security conditions are favorable.

4. Utilize the press personal ties to establish a press network advocating for collection justice to establish it as a key to recovery from the economic crisis.

5. Work on the possibility of forming a parliamentary coalition of tax justice in the current circumstances and try to introduce tax issues as a key point of discussion in the upcoming presidential elections.

6. Launch a campaign to push for greater transparency of government-released tax data and their division by geographic region, economic activity, tax bracket, and gender to broaden and deepen debate on tax justice issues, and allow the civil society and the opposition to develop alternative perceptions of government policies. The campaign will start in February 2018 (before the start of the fiscal year to avoid government postponements) and end after the tax statements are announced in April by assessing their details, whether negatively or positively, in a press conference or public meeting if possible. If this is not possible, a press release will be issued and circulated by the participants. The campaign will be based mainly on social media using professional journalism as a secondary hub for circulation. In this context, it is important to realize that although the campaign's target audience is the citizen, its purpose is to attract civil society activists to discuss and raise the issue to the level of the State's vision to make a concession, which although it may seem insignificant, will grant it the recognition of the civil society, the international community, and financial organizations.