# APPENDIX D: Economic Legislation

## 1. Status of Recent Economic Legislation

| | LAW | STATUS |
|---|---|---|
| 1. | Financial Leasing Law No. 95/1995, amended by Law No. 16/2001 | Enacted. |
| 2. | Central Depository Law No. 93/2000 | Enacted. |
| 3. | Mortgage Law No. 148/2001 | Enacted - Executive Regulations issued. |
| 4. | Money Laundering Law No. 80/2002 | Enacted. |
| 5. | Intellectual Property Rights Law No. 82/2002 | Enacted - Executive Regulations issued. |
| 6. | Special Economic Zones Law No. 83/2002 | Enacted. |
| 7. | Civil Association and Establishments Law No. 84/2002 | Enacted. |
| 8. | Export Promotion Law No. 155/2002 | Enacted - Executive Regulations awaiting approval. |
| 9. | Telecommunication Law (UTL) No. 10/2003 | Enacted. |
| 10. | Unified Labor Law No. 12/2003 | Enacted. |
| 11. | Central Bank, the Banking System and Monetary Law No. 88/2003 | Enacted. |
| 12. | Law Number 15/2004 concerning Electronic Signature | Enacted. |
| 13. | Small and Medium Enterprises Law No.141/2004 | Enacted. |
| 14. | Presidential Decree No. 231 of the year 2004 concerning the organization of the Ministry of Investment | Enacted. |
| 15. | Presidential Decree No. 300 of the year 2004 issuing the Customs Tariffs | Enacted. |
| 16. | Income Tax Law No. 91/2005 | Enacted. |
| 17. | Competition Law No. 3/2005 | Enacted. |
| 18. | Governmental Accounting Law No. 139/2006 | Enacted. |
| 19. | Draft Unified Corporate Law | Pending discussion. |
| 20. | Draft Capital Markets Law | Pending discussion. |

# 2. Overview of Selected Recent Economic Legislation

## 2.1 Law No.139 of 2006, amending some of the articles of Law No. 127 of 1981 concerning Governmental Accounting

- On June 17th Law No. 139 of 2006 was approved by the People's Assembly. Law No. 139 is issued to amend Articles 5, 6 and the first paragraph of article 30 of Law 127 of 1981 concerning Governmental Accounting.

- **Recording on cash basis:**

  According to the amendment, all transactions related to the «Uses» and «Resources» of the General Budget of the State, including the transactions related to non-financial assets (investments), must be recorded on cash basis. With this provision, the Budget recording will be in perfect compliance with the international standards.

- **Treasury Single Account:**

  Law No.139 will introduce another significant improvement to the State Budget. The Law states that a single account must hold all the accounts of:

  ◊ The Ministry of Finance,

  ◊ The administrative body units,

  ◊ Local administration and public service

  ◊ Economic authorities

  ◊ All other accounts of public and governmental agencies already opened.

- The new accounting system develops a more transparent and effective State Budget. Previously, public money was fragmented into:

  ◊ 48400 accounts within the Central Bank of Egypt

  ◊ 5000 accounts in other commercial banks

- By the end of December 2005, the cash in these accounts amounted to LE 82.3 billion which represents around 14 percent of GDP.

- The Treasury Single Account will consolidate sub-accounts for each of the above mentioned entities. With this additional remedial step, the Ministry of Finance is heading towards a lower budget deficit and more progressive public finance.

## 2.2 Law No. 8 of 2005 amending the Customs Exemptions Law No. 186 of 1986

- The provisions of article 4 of law 186 of 1986 regulating customs exemptions, concerning the collection of customs duty at a fixed rate of 5% of the value, shall apply to companies and establishments for all their imported machinery, equipment, devices, means of transportation for materials and vehicles (other than private cars) necessary for establishing projects, including investment projects, hotels, tourist establishments, stated in law 1 of 1973.
- The provisions of article 8 of law 186 of 1986 regulating customs exemptions states that machinery, equipment, devices (other than private cars) shall be temporary released to be rented or used within the country at a tax rate of 20% of the value for every year or portion of a year that they remain in Egypt. Article 9 paragraph A generally restricts the usage of items that have been exempted or that have a discounted customs tariff or have a fixed tax rate. According to article 4, it is prohibited to use these items within a specified period for any means other than their main purpose, except after paying the applicable customs duties.
- There was a debate concerning the validity of the fixed rate of 5% for machinery, equipment, and devices as specified in article 4. Therefore, the matter was reviewed and discussed by the cabinet committee concerned with settling investment disputes and decided the expansion of the previously mentioned category.
- The application of the 20% tax rate as stated in article 8 will be a burden on the projects that import machinery, equipment and devices. This could prevent them from importing such equipment despite the need for them.
- In addition, article 9 paragraph A of the same law states the prohibition of usage of these items until paying taxes and fees and prohibition of transferring them to other projects that have similar privileges. According to the decision of the general assembly of the departments of fatwa and issuing legislations in State Council, these projects became deprived from reusing such machinery, equipment and devices despite the fact that these items could be imported and be exempted or have a discounted rate or have the fixed tax rate of 5%.
- For all these reasons, the amendments of the previous articles are required to settle any dispute may arise in the projects stated in article 4 who enjoyed the 5% tax rate, and to ease the burden on the institutions and establishments that are willing to benefit from article 8. In addition to permitting the transference of the exempted machinery, equipment and devices or enjoyed a discounted customs tariff rate or have a customs duty of 5% to other projects that have the same privileges during the period of seizure without forcing them to pay any customs duties.
- Meanwhile, the law includes re-regulating the period of seizure in exempted commodities or have a discounted tariff rate or have a 5% fixed duty rate according to its expiry dates and types and following the principle of graduation in setting the customs duty in cases of transferring such commodities during the seizure period.
- The attached law also states the necessity to revise the requirement for commercial and manufacturing samples for the exempted commodities according to article 2 of the mentioned law to inspect whether these commodities shall be exempted or not.

## 2.3 Law No. 91 of 2005 Concerning the Income Tax

- Less than two months after the appointment of the new Cabinet, Minister of Finance Youssef Boutros-Ghali presented a new income tax law during the annual conference of the National Democratic Party, held in September 2004. The draft law was circulated and discussed by all stakeholders and then sent to Parliament for approval. The Parliament has passed the new law and the President has signed and issued it in the Official Gazette in June 2005.
- The new income tax law makes the Egyptian tax system more transparent for both national and foreign companies looking to invest in Egypt. It cuts personal and corporate income taxes, and unifies tax exemptions and legislations. It introduces a 50 percent reduction in personal and corporate taxes to a maximum rate of 20 percent. It has also restructured income tax brackets into three categories, with tax rates of 10, 15 and 20 percent. Existing tax exemptions for annual earnings of under LE 5,000 would double. Working spouses would benefit from the new law as each of them would be eligible for an exemption of LE 5,000 on wages. Civil servants would get a personal exemption of LE 4,000 annually.
- Additionally, the law grants a general amnesty for taxpayers in all cases before courts the subject of which is the disagreement between the taxpayer and the Tax Authority on the tax estimation, provided that the disagreed tax amount does not exceed LE 10,000. Moreover, the law provides for a settlement process in tax evasion cases or other offences upon request from the concerned person within one year of the entry into force of the law. These provisions are seen essential in order to encourage Egypt>s informal economy to legalize its status.
- The law also provides for phasing out tax exemptions for newly established companies. Companies listed on the Stock Exchange would also lose the tax exempt status of their paid-in capital.
- In addition to rate reductions, the law provides for streamlining tax administration and merge all income tax legislations into one law. The law is intended to encourage the voluntary submission of tax returns by taxpayers, the timely payment of taxes, and greater compliance of citizens who previously evaded taxes whether because of high rates or cumbersome procedures. A key element of the law is the introduction of self-assessment for taxpayers. This places the burden of proof for tax evasion on Tax Authority which will now limit its inquiry to a sample of some 5 to 10 percent of all taxpayers. The elimination of what had been viewed as discretionary assessments aims at regaining the missing trust between taxpayers and the Tax Authority.
- The Ministry anticipates a significant improvement in the cost effectiveness of the Tax Authority and a reduction in costs to enterprises and individuals associated with the payment of taxes. The new system raises revenue from a limited number of tax rates and will therefore substantially reduce administration and compliance cost. Avoidance of numerous taxes that yield limited revenue will also facilitate tax assessment and avoid the impression of excessive taxation. The new law also introduces high deterrent penalties against tax fraud.
- The proposed rate reductions and administrative changes will, in the medium term, stimulate the economy. Higher profits for businesses will encourage faster economic growth, thus expanding the tax base and ultimately increasing tax revenues. This should partially make up for the shortfall in tax revenues, estimated at between LE 3.2-3.5 billion. GDP growth rates should increase by 2-2.5 percent giving rise to at least LE 2 billion in additional revenues.
- A broad tax base with limited exemptions enables revenue to be raised with relatively low rates. The erosion of the tax base through exemptions requires higher tax rates to make up for the loss in revenue. Higher rates only serve to increase the likelihood of tax evasion. Hence, expected improved tax compliance under the new reforms should also cover a large part of the loss in tax receipts.
- Proceeds from an ambitious privatization program that includes 172 state-owned companies, a public sector bank and the stake of the government in joint venture banks will also be used to finance the temporary increase in the budget deficit.
- Over the longer term the government will be building up the administrative capacity of the state to collect taxes. In addition, a plan was set, immediately after the issuance of the law, to create awareness of taxpayers in order to encourage them to take part in the reform. This plan depends to a large extent on press and media campaigns directed to all classes of society.

## 2.3.1 Minister of Finance decree No. 991 of 2005 promulgating the Executive Regulation of the Income Tax Law

- Article Eighth of the law issuing the income tax law provide that the Minister of Finance shall issue the Executive Regulation for the tax law.
- Accordingly, the Minister issued decree No.(991) of the year 2005 promulgating the Executive Regulations of the Income tax law. The Regulation set forth the guide lines and interpretation of tax law articles, and helps in leading the way to the best application of the concepts laid down in the law, by providing the definitions of the principles stipulated in the law and the procedures needed to apply such principles therein.
- The Executive Regulations consist of 146 articles contained in six books.
- Book One speaks about general provisions which deals with the issues of the calculation of the tax period and the conditions needed to approve a change in the tax period. In addition, the cases when the natural person is considered as having permanent residence in Egypt and the actual headquarters of a legal person as well.
- Book two deals with the Income Tax of natural Persons with regard to the following issues:
    - ◊ Tax scope and rate,
    - ◊ Salaries and the like
    - ◊ Commercial and Industrial activity,
    - ◊ Exemptions,
    - ◊ Revenues of non commercial professions,
    - ◊ Real estate revenues
- Taxes on the profits of the legal persons is the subject of Book Three from the regulations. It deals primarily with determining the scope of the tax and the equation of calculating the average capital stock, the average of loans and advances of determining taxable income .
- Book Four set fourth the withholding of tax at source, and the issues of Deduction, Collection, and Tax advance Payments are the subject of Book Five from the regulations. Book Six sets the obligation of Taxpayers and others which includes notifications, bookkeeping tax return ,tax assessment, tax audit and investigations, collection guarantees and finally appeal procedures.
- All articles set forth in the regulations respond totally to the principles of the income tax law, and aims primarily to support the efficient application of the law.