

(A) FINANCIAL POLICIES ADOPTED BY MINISTRY OF FINANCE:

During the fiscal year 2004/2005 and 2005/2006 (twenty two months), the Ministry of Finance has adopted a number of financial programs and policies aimed at restructuring the State public finances.

The Ministry of Finance has taken the following measures to implement these policies:

1-Reforming tariffs and developing new customs processes to serve the national economy:

Customs' tariffs were restructured by Presidential Decrees under Law no. 300 of 2004 and Law no. 410 of 2004 to:

- Reduce the average weighted customs tariff from 14.6% to 8.9%.
- Reduce the customs' categories from 27 to 6 and classifications from 13000 to 6000 items. This assists the facilitation of customs transactions as well as improving the control of the process of defining customs items.

This has helped:

- To consider the social aspect by reducing the tariff on basic and essential goods to the benefit of low income people.
- To follow the objectives of national industry by putting tariff categories graded from raw materials, semi-manufactured goods and finished goods.
- To keep pace with international developments by exempting machinery, equipment, spare parts and inputs for production for use in the information technology industry.
- To adhere to the international standards set by WTO to abolish most of the items of customs tariffs and to unify tariff categories on imported goods regardless of the purpose of importation, whether for industry or trade.
- To abolish the fees of customs services which were imposed on imports; a Ministerial Decree no. 1230 of 2004 has been issued on this concern.
- To abolish the customs dollar which had a great impact on reducing the cost of imports; thereby reducing the production costs for national industries and increasing competitiveness in local and international markets.

- To issue Law no. 8 of 2005 to amend some articles of Law no. 186 of 1986 concerning customs exemptions in order to introduce more facilities for investment projects and organizing seizure on exempted materials.
- To issue Law no. 95 of 2005 to amend some articles of Customs Law no. 66 of 1963 which helped to facilitate trade and establish a suitable atmosphere for both the customers and employees.
- To apply the pre-release system by paying taxes and customs duties, and completing all the procedures of customs clearance before the arrival of goods. This will help to release goods immediately after arrival upon presentation and completion of the official documents and inspection.
- To apply a risk management system for the immediate clearance of imports by using a program linked to the computer in order to speed up release and facilitate the procedures for importers.
- To establish a site on the Internet for the customs authority to introduce all the required procedures and provide assistance in their completion.
- To use advanced information technology by computerizing all the customs sites.
- To establish new customs centers to ease the procedures and provide all customs services through a single window.
- To establish an Account Management System (A.M.S) to provide the procedures for releasing the greatest amounts of imports through a set of risk management and inspection regimes.
- To commence the implementation of electronic payments for customs duties to achieve more flexibility and speed.
- To issue the executive regulations for Customs Law no. 66 of 1963, which will help to achieve the concept of transparency, facilitate the practical application of the law, and unify the procedures and methodology in all customs outlets.

2-Application of the new tax law on income, profits and payroll that will serve development and investment:

Law no. 91 of 2005, concerning income taxes, was issued in order to improve the economic performance, expand the community tax base and attract investments.

The Ministry of Finance conducted an unprecedented advertising campaign to introduce the new tax law to ensure the compliance of taxpayers and the effectiveness of its' implementation.

Within a short period of the new law's application, the number of tax returns submitted increased to double that of the comparable period of the previous year.

Main features of the new tax law:

- Reduction of the maximum tax rate on companies' profits from 40% to 20% (as well as abolishing the 2% which is the development of resources fees). This helps to assist the business environment in order to attract new investments which in turn leads to the activation of the national economy and an increase in employment opportunities.
- Redistribution of income tax categories commensurate with the hierarchy in incomes.
- Reconsideration of income tax exemptions to the benefit of low income categories and raising the personal and family exemption limits.
- Tax amnesty for those who did not have a tax record to encourage them to register their activities. This helps in integrating unregistered taxpayers as part of the general economic activity.
- Facilitation of tax reconciliation between taxpayers and the Tax Administration according to the rules stated by the law. This contributes in settling legal disputes without litigation and facilitates tax amnesty.
- Elimination of tax exemptions in return for reducing the tax rate on companies' profits. In addition, an increase in the percentage of allowed depreciation to guarantee that the tax rate will be in harmony with international standards as well as keeping investment incentives.
- Simplification of the process of tax accounting and management.
- Consideration of the concept of the geographical income tax base which means that the tax will be calculated on all income generated in Egypt. It will be applied on both Egyptians and foreigners alike.
- Treatment of all types of legal entities equally. It is not acceptable to deal with a company that produces a product in a different way from another that produces the same product depending on its legal form.
- Establishment of a Large Taxpayer Center, which includes 2000 taxpayers which constitute 80% of the tax revenue, to improve the tax service

through reducing the burden and cost on taxpayers and providing integrated electronic services to taxpayers. This step should be considered as a first step in improving both income and sales tax after the merger.

3- Resolving deficiencies in the sales tax:

It was notable that the application of the sales tax became stable after issuing law no.11 of 2002 and settling all the disputes concerning operation services for others.

In the framework of correction of the application of law no. 11 of 1991, concerning Sales Tax, law no. 9 of 2005 was issued to amend some articles as follows:

- To permit a tax deduction on capital goods in order to get rid of duplication in application and to reduce the costs of production.
- To apply exemptions on some basic commodities in the interest of our citizens as well as completing the target set in law 89 of 2004 on amending some tax categories on some basic services for hotels, restaurants, tourist transport companies, telephones and cell phones.
- To create an encouraging atmosphere for production and operation which enables the taxpayer to achieve a fair profit while the State receives additional tax due to the increase in investment and market reviving. In addition, to care for low income people and increase their revenue by reducing the cost of goods and services and some tax exemptions.

4- Resources development fees:

The fees of some resources development were reconsidered and directed to serve the economic activity instead of just considering them as an income for the public treasury.

Law number 161 of 2004 was issued to amend the category of resources development fees on parties and services to a unified category of 10% which led to an increase in revenues by 25% in the fiscal year 2005/2006.

5- Governmental procurement, tenders and public auctions:

Law number 5 of 2005 was issued to amend some articles of the Tenders and Auctions Law number 89 of 1998 with a view to solving the problems of contractors and suppliers.

The executive regulation has been issued recently to organize the contractual relationship between the contractors and the different agencies.

6- Development of State Budget:

Law number 87 of 2005 was issued to amend some of the articles of the State Budget Law number 53 of 1973 in a way that guarantees the preparation of new chapters in the State Budget according to the international standards of transparency and clarity.

7- Projects for development and modernization:

- To automate the accounting units. 60 accounting units will be automated in coordination with the Ministry of State for Administrative Development and the Ministry of Communication. This will help in controlling the budget and expenditures. In addition, the efficient procedures will save money as a result of shortening the period of time for money to be transferred within the banking system.
- To establish ATM cards for payrolls and salaries for all government employees in cooperation with the Ministry of State for Administrative Development. These cards achieved some benefits for both employees and the State with 200,000 cards having already been issued.
- To continue the issue of ATM cards for 500,000 retirees in Alexandria and Cairo of which 40,000 retirees have already started using them.
- To complete the first stage of electronic payment for the government. This process is related to customs' duties to facilitate payment via internet by using electronic cards issued by banks. It is possible to pay customs' duties in the branches of banks for imported goods in the following ports; Alexandria, Al Dikhela, Suez. The system will soon be implemented in all the ports of Egypt. Then it will be followed by the automation of tax collection and electronic payment of the suppliers' dues of the state services.
- The automation of governmental procurement via the internet is currently being reviewed to facilitate the process of tendering.
- A governmental center for issuing electronic certificates and signatures is under construction in order to improve the performance of the governmental administration.

B- FUTURE ACTIONS TO IMPROVE THE FINANCIAL PERFORMANCE OF THE NATIONAL ECONOMY:

In order to complete all the procedures taken by MOF to activate the financial performance and implement integrated financial policies, the MOF has taken the following procedures:

1- Improving property law:

- To improve the property tax law in order to update the concepts and resolve the difficulties in application of the laws over the years.
- To resolve the numerous legislations issued in the field of tax application and exemption.
- To make exemption accessible to those who desire it according to the rules and regulations.
- To consider the social, humanitarian and economic dimension of taxpayers and to increase the state resources through setting the tax base and rationalizing exemptions.

2- Improving the sales tax:

- MOF has reviewed the Sales Tax law no. 11 of 1991 and its amendments. The necessary technical studies for the law is underway, with assistance of international expertise, in order to fully apply the tax based on the added value. This permits the inclusion of all goods and services in the tax base, in addition to full deduction of the tax paid on purchases of goods and services.
- To support this direction, a number of efforts are currently underway in various fields to improve the sales tax such as:

Automation and Information Technology:

Within the framework of the project to automate the sales tax department to establish an integrated and secured information system to computerize all the processes and provide the necessary information to support and help in decision making. A master plan was drawn up to integrate the information system till 2007. This plan targets to guarantee the continuity of the complete application of the concept of electronic government which permits registered taxpayers to contact the authority through the internet and investigate their data. A site for the authority was built on the internet which includes two types of emails; one for complaints and the other for information. The plan includes the continuous updating of the site in order to register the taxpayers through the internet, receiving their requests for information and answering them. There is also the receipt of tax returns and the provision of all forms, applications and instructions.

Surveying and tax auditing:

- To continue to survey the tax community and assign auditing resources to improve voluntary compliance.
- To hold regular meetings with the commercial chambers, syndicates and unions to lay the foundations for appropriate accounting which satisfies producers, exporters and wholesalers of all activities.
- As a result of mutual trust between the authority and the taxpayers, the sales tax authority will accept all returns without refuting their credibility. The authority will resort to audit by using a random sample to guarantee anti evasion and capture the few members who are trying to evade.

Human Resources:

The authority believes that any improvement in performance will only happen by having highly qualified personnel. Training is a key element in developing the employees at all levels. It improves their creative skills and capabilities which will promote governmental performance. It is notable that all the services of the state are undertaken by the governmental system, therefore, it essential to prepare human resources who can make the required change. Accordingly, the tax authority has prepared training programs to train human resources to carry the responsibility in all fields.

Tax administration improvement:

The improvement of tax administration is currently considered a high priority for the State as represented by the MOF. The merger process of the Sales and Income Tax Departments is a basic component in the Ministry's plan to improve the tax administration and to create a conducive atmosphere for investment.

The government wants to create an encouraging atmosphere for production and employment which enables the taxpayer to achieve a fair profit while the state receive its tax due.

1-Stamp Tax:

In the framework of the comprehensive economic reform program adopted by the government, the private sector role will be increasing in all fields as well as keeping up with the latest technologies and adopting policies that encourage saving in a way that will benefit the national economy. There is a need to amend the articles of the stamp tax law; to lessen the burden on the saving process and increase the existence of saving institutions in the markets and the stock market. It is also important to eliminate a number of stamps which do not add any revenue to the public treasury and increase bureaucracy on the national economy.

2- Single Treasury Account:

The draft law to amend some of the articles of the Governmental Accounting law no 127 of 1981 is currently under revision. It will create a single treasury account in order to unify all the resources of governmental accounts into one account at the Central Bank which will enable the MOF to manage public money in an effective way and lessen the burden on servicing the public debt.