Egypt’s Parliament approves a VAT law to reduce tax evasion

Egypt’s parliament gave a final approval on 5 September 2016 to the implementation of the long-delayed value-added tax (VAT) at a rate of 13 percent for the current fiscal year. In the next fiscal year, which starts in July 2017, the VAT rate will increase to 14 percent, according to the law, which Ahram Online obtained a copy of.

The VAT is an attempt to tax businesses at each stage of production on the value added each time a good changes hands as it goes up the chain from a raw material to a consumer product. In practice, this means a tax is charged based on the difference in price between an article of clothing and the textiles that were used to manufacture it, or the difference between the price a shop charges for a shirt and the wholesale price the shopkeeper paid to buy it. As a good moves up through the supply chain, each business has to pay taxes to the state but can claim a credit for taxes it paid when it purchased the cloth or shirt or other item. The same principle applies to imported goods, which are taxed when they arrive in the country and each time they change hands after that.

The VAT also covers services, which are usually defined as any economic transaction in which a physical good doesn’t change hands — hotel stays, doctor visits, concert and train tickets, phone and internet service, education, financial and legal advice, etc. (Somewhat confusingly, restaurant meals are counted as a service). The same rules apply when it comes to taxing added value for services, although supply chains for services are usually less complex than for manufactured goods.

Introduction of the VAT in Egypt aims at reducing tax evasion, as it will be applied to each member of the production chain of goods and services at the final retail stage, instead of the current sales tax that is imposed as a one-off on the final sale to customers. The delayed VAT law is part of the government's fiscal reform programme, implemented in July 2014, through which energy subsidies will be phased out gradually and new taxes will be introduced to reduce the country's large budget deficit – estimated at 11.5 percent of GDP in fiscal year 2015/16.

The reform programme has been endorsed by the International Monetary Fund, and has led to an initial agreement between the government and the global lender on a $12 billion fund facility over three years, which is expected to be approved by the fund's executive board in the coming weeks.

In passing the law on 5 September 2016 (to be implemented from 1 October 2016), the Egyptian Parliament increased the list of exempted goods and services to 56 from 52. According to the VAT bill, parliament included the following goods among the exemptions:

- Tuition fees at international schools, instead of the 5 percent tax that was previously proposed by the government.
- Local medicine, instead of the 5 percent tax that was previously proposed by the government.
- Imported medicine, instead of the 1.6 percent tax that was previously proposed by the government.
- Cars that are adapted for disabled users, and other supplies for the disabled
- Medical supplies for the deaf
- Recycled material produced from waste products

The exemption list includes all essential food goods, dairy products, babies’ milk and their nutritional supplements.

Some other goods and services that were previously exempt will fall under the new VAT regime, as following:

- TV and radio production, taxed under the new VAT at a rate of 5 percent
- Imported vegetables
- Imported wheat products
- Cosmetic surgeries for non-medical causes

The following goods and services will see higher taxes under the new VAT than under the previous sales tax:

- Taxes on mobile phone services rose to 21 percent (a fixed rate of 8 percent in addition to the 13 percent VAT) from the 15 percent previous sales tax.
- Alcohol products
  i. Taxes on wine and spirits increased by 50 percent to 150 percent (EGP 15 per litre).
  ii. Taxes on beer are up by 50 percent to 250 percent (EGP 2.5 per 500ml bottle).

However, the following goods will see a reduced rate under the new tax:

- Taxes on air conditioners are down from 25 percent to 21 percent (a fixed rate of 8 percent in addition to 13 percent VAT)
- Taxes on cars with engine power up to 1600cc are down from 15 percent to 14 percent (a fixed rate of 1 percent in addition to 13 percent VAT)
- Taxes on cars with engine power from 1600cc to 2000cc are down from 30 percent to 28 percent (a fixed rate of 15 percent in addition to 13 percent VAT)

The finance ministry has also listed a set of goods and services that will be subject to various fixed tax rates but not to VAT.

Cigarettes are included in this list; they will be taxed at a fixed rate of 50 percent of the pack's consumer price in addition to the following increases:

- Cigarette packs that cost EGP 13 or less will increase by EGP 2.75
- Cigarette packs that cost between EGP 13 and 23 will increase by EGP 4.25
- Cigarette packs that cost more than EGP 23 will increase by EGP 5.25