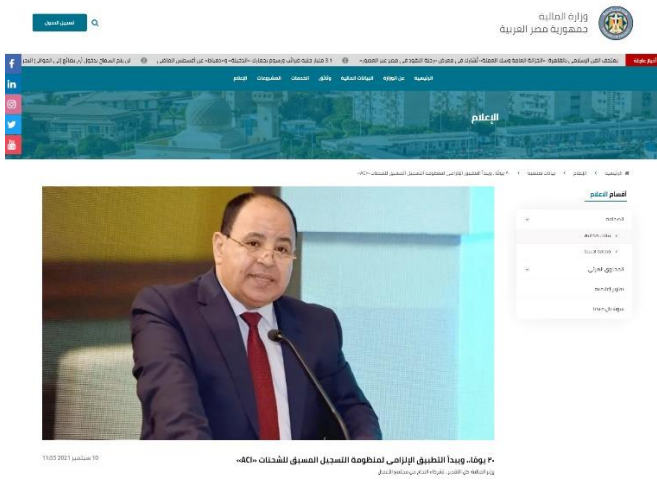


Date: 29 September 2021

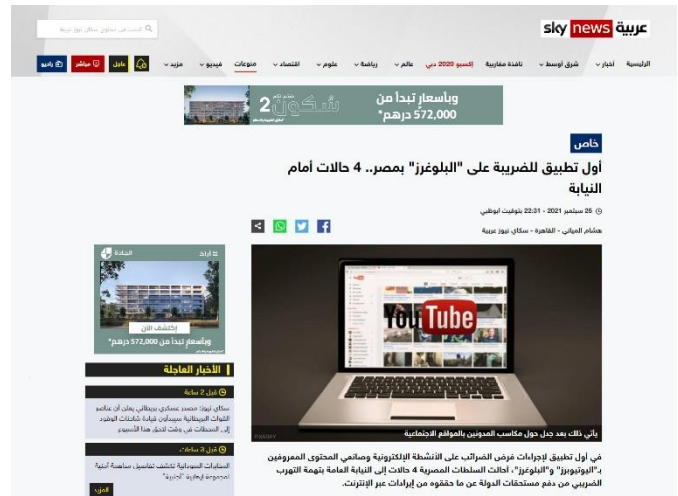
Issue: 647



Days away from the mandatory implementation of the Advance Cargo Information (ACI) system

Source: Ministry of Finance website

The countdown has begun for the mandatory implementation of the ACI system (pre-registration of shipments), with only 20 days left. No goods will be allowed into Egyptian seaports, starting from the first



The first application of the tax on "bloggers" in Egypt ... 4 cases put before public prosecution

Source: Sky News Arabia

In its first enforcement of procedures levying taxes on electronic activities and content creators, known as "YouTubers" and "Bloggers", the Egyptian authorities referred four cases to Public Prosecution on charges of tax

of October, except through the ACI system. | evasion from paying state dues on income generated online.

Our Views

Although the subject matter of each of the above two decisions is different, they are linked by the following common factors:

- 1-The two decisions are steps in the right direction in principle, whether it be the ACI system, or taxing all kinds of digital activities, as both of them are already applied in different countries, especially developed ones.
- 2-Both of them are supposed to achieve an improvement in performance. For the **ACI system**, it is presumed that it would help with facilitation of customs clearance procedures, follow-up audits, and control over commercial fraud and smuggling practices.
Additionally, collecting dues on revenue generated through digital activity, whether they be from online traders or others (Youtubers, Bloggers...etc.) achieves tax justice, as they are activities through which economic profits are achieved, and therefore must be taxed like other economic activities.
- 3-Both decisions require electronic data registration via government digital platforms, be they importers or practitioners of digital activity. This depends mainly on the quality of the digital infrastructure (internet speed, availability of service, quality of service, etc.).

4- Finally, one of the main objectives of the two resolutions is to increase state revenue through an organised digital system.

But the lofty goals of the resolutions can only be achieved through proper implementation of detailed procedures. Any neglect in implementation will not only lead to deficiency in results, but (particularly in the case of digital transformation) may lead to loss of confidence in the system as a whole, leading to regression to modes of the informal economy more than ever. At this point, the “View on News” focuses on the following:

1- General notes regarding the two resolutions

- 1-1- As a start, digital transformation reform is partially implemented in some parts of the system for now, while the rest remains unchanged, causing an immediate collision between the different parts of the system and those working within it. This applies to both the Customs and Tax Authorities; The business community is already experiencing persistent problems with both.
- 1-2- Disclosing resolutions before the completion of their legal and institutional framework, along with the multiplicity of announcements may lead to confusion, distrust, and fear of the unfamiliar - especially on social media - which might drive activities towards informal practices once more.

2- Regarding the ACI system:

2-1- It is important to remember that the goal of the new digital customs clearance system is to facilitate trade with a view to enhancing exports and supporting economic activity. Hence, if customs clearance becomes an obstacle, this goal will not be achieved, with a direct negative impact on Egypt's competitiveness and its ability to produce and trade.

2-2- The launch of a trial phase of the system is a good start, but what is important is to benefit from it in addressing the system's shortcomings; in particular, the problem of slow connectivity and interruption of the digital platform for long periods. Failure to respond to the data collected will constitute bigger problems later.

2-3- As only a limited number of companies, out of the total number of importing companies, registered on the new digital platform during the trial period, realistic pressure on network capacity has not yet been tested, but will appear after a few days (October 1st is the date of mandatory implementation).

2-4- It is important to take advantage of the trial period in evaluating the pilot before implementing it on a mandatory basis. The purpose is not to stop or postpone implementation yet again, but rather to carry out the required reforms to maximize benefits therefrom; especially that there are no alternatives, as switching to land trade to evade the system may increase tax evasion, noting that air freight is expensive.

2-5- There is also a need to conduct another evaluation after the mandatory implementation with a sufficient period of time

(at least one month). This should be done according to specific technical performance indicators that measure the efficiency of the service, such as: the time period for completing the registration process, possibility of correcting the entered data, speed of obtaining an identification number,etc.

2-6- Finally, it is important to evaluate the efficiency of relying on the Cargo-x platform, especially as there are other tracking companies, and the government's choice of a particular company is deemed an interference in the relationship between the importer and the exporter.

3- With regard to e-activities and e-commerce:

3-1- The risk comes from the fact that mishandling digital activities in the name of maximizing the state's revenue has dire consequences, since the expansion of this emerging sector is a positive matter that contributes to economic development through achieving economic profits, and providing job and income opportunities for many age groups who may be unable to work in the conventional way, a matter that applies largely to women.

Therefore, digital activity must be dealt with very carefully and not follow a policing method in monitoring activities on social media, with everyone operating therein regarded with default criminal suspicion.

3-2- Any arbitrary treatment will be similar to the arbitrary estimates that taxpayers often suffer from in the current tax system. Activities that take place within a transparent, efficient and sound framework will automatically increase the state's resources.

3-3- While the Government allowed a trial period for the ACI system, the talk about electronic activities was announced and even implemented before the e-commerce law was completed, not to mention the repetition of various announcements from multiple sides. This automatically led to intense discussions and multiple interpretations on social media, which might encourage entrenching within the informal sector, making it difficult for the state to shift them towards formal channels.

3-4- Reforming the tax system as a whole is a top priority, as it would achieve tax justice. Talking about change in any system, especially when dealing with this new sensitive sector (digital activities) must be preceded by a complete reform of the tax system, which has not yet been done. The business community is already suffering on the ground from persistent problems with the tax authority and there is a general climate of mistrust towards the institutional system of the Authority, despite efforts from the Ministry.

3-5- Finally, to handle the taxes to be collected from digital activity, it is not sufficient to create an electronic unit for the taxation of these activities; this overhaul requires training ministry employees as well as the existence of a transparent

legal framework that allows for smooth implementation. It is useful to benefit from the experience of successful countries in this regard before starting the implementation in order to avoid previous mistakes, given the partial reform of the system as mentioned previously.

Worthy of Note:

- Dr. Mohamed Maait, Minister of Finance, had issued a ministerial resolution on the executive regulations for the ACI, which was launched experimentally on April 1st 2021. It was decided that it would be implemented on a mandatory basis on the first of July 2021, but was postponed until October 1st. It would include - in its first stage - sea ports, followed by air and land ports through the electronic portal (www.nafeza.gov.eg), within the framework of the national project to modernize and automate the customs management system.

The purpose is to contribute to simplifying procedures and curtailing time needed for customs clearance, reducing commodity prices in local markets, and improving Egypt's ranking in three important international indicators: global competitiveness, business conduct, and the macroeconomic environment.¹

- The imposition of a tax on digital activities was previously announced through several news platforms, without disclosing

¹ <https://gate.ahram.org.eg/News/2570480.aspx>

the details of its application. In some of them, the tax authority explained developments in e-commerce, taxes, and “YouTubers” and “Bloggers” income generation. It also appealed to the practitioners of these activities to go to the Authority to obtain tax cards, to avoid being subjected to legal scrutiny.² The Egyptian Tax Authority announced that the Ministry of Finance is making every effort to achieve tax justice by identifying taxable segments more accurately, especially on transactions that take place on electronic platforms; it also seeks determine who undertakes them, with a view to including the informal economy in the formal system, and thus ensure the rights of the public treasury.³

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² <https://www.almasryalyoum.com/news/details/2425127>

³ <https://www.skynewsarabia.com/varieties/1466105-%D8%AA%D8%B7%D8%A8%D9%8A%D9%82-%D9%84%D9%84%D8%B6%D8%B1%D9%8A%D8%A8%D8%A9-%D8%A7%D9%84%D8%A8%D9%84%D9%88%D8%BA%D8%B1%D8%B2-%D8%A8%D9%85%D8%B5%D8%B1-4-%D8%AD%D8%A7%D9%84%D8%A7%D8%AA-%D8%A7%D9%94%D9%85%D8%A7%D9%85-%D8%A7%D9%84%D9%86%D9%8A%D8%A7%D8%A8%D8%A9>