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## Fees on amusement parks, soft drinks and spirits ... provisions of the amendment of the State Fundraising Law



On Tuesday, December 14, the House of Representatives discussed the Prime Minister's Resolution to draft a law to amend some provisions of the stamp tax law, promulgated by Law No. 111 of 1980, Law No. 147 of 1984 imposing a state fundraising fee, and Law No. 74 of 1999 imposing a tax on entrance to theaters and amusement parks.

[Link to the News Story](#)

## Our Views

At the outset, we would like to clarify that the House of Representatives has postponed the discussion of amending the Stamp Tax Law No. 111 of 1980, and Law No. 147 of 1984 imposing a state fundraising fee. This does not mean accepting or rejecting the amendments, but postponing them for further study.

### View

In general, it must be emphasized that no tax increases should be approved without fully studying them using the cost-benefit methodology. All direct and indirect costs and returns associated with introducing these fees should be calculated for each possible scenario.

It is not clear whether the government represented by the Ministry of Finance has conducted sufficient studies to assess the impact of these amendments on the various economic sectors, and whether they are in line with the relative importance of each sector and its capacity for growth, as well as their direct and indirect effects on all social groups.

ECES' commentary on the news is divided into three main parts: First, commenting on the amendments within the framework of the general direction of tax policy in Egypt. Second, the impact of the amendments contained in the news on social justice and economic efficiency. Third, technical notes related to implementation mechanisms.

## **First, commenting on the amendments within the framework of the general direction of tax policy in Egypt**

The proposed amendments come in line with the policies of the Ministry of Finance over the past years, which are characterized by two main features:

1. Increasing reliance on vertical rather than horizontal expansion, meaning imposing more taxes on those already compliant as well as on easy-to-collect sources, including taxes on goods and services, instead of expanding the tax base and easing the burden on suppliers.

To name but a few, the amendments included a 2% fundraising fee on TVs and cars even though TVs are already subject to 22% VAT and schedule tax, and cars are already subject to 45% VAT and schedule tax.

2. The rising trend towards imposing indirect taxes, despite the fact that they are imposed at a fixed rate on all consumers of the same commodity, and hence their burden increases on the lower-income groups in society. In this regard, the data of the Ministry of Finance indicate an increase in the proceeds of fundraising fees in the public budget by 475% during the period 2014/2015 - 2021/2022. World Bank data also indicate that Egypt is among countries that heavily impose these types of taxes.

## **Second, the impact of the amendments on social justice and economic efficiency, as well as on the general directions of the state**

The planned increases, according to official announcement, aim to enhance economic efficiency and increase social support, especially for farmers and university professors, by imposing more fees on non-essential goods, but:

1. The increase in duties was not limited to non-essential goods only, but also included essential goods that affect all citizens. Article 21 imposed an increase of 10% of the invoice value on shrimp and caviar, as well as on food mixers, headphones, roasted coffee, and cigarette lighters. Combining these goods and unifying their tax treatment lacks equality.
2. With regard to directing the tax proceeds to social support, the allocations for Takaful and Karama in the budget of the current fiscal year 2021/2022 did not witness any increases at all. Also, the sharp rises in the prices of agricultural production inputs are due to structural and institutional imbalances in the first place, and it is not expected that exempting these inputs from taxes would fundamentally affect prices unless the system is fully reformed. In any case, tax exemptions on agricultural inputs should not be compensated by imposing more taxes on other essential goods.<sup>1</sup>
3. As for economic efficiency, the costs of shipping, taxes and customs on some basic durable goods such as household electrical appliances have reached 60% of the value of the commodity, which is a high percentage by all standards and cannot withstand any further increases.
4. There are some types of fees that directly negatively affect the spending of tourists in Egypt, which is not consistent

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<sup>1</sup> Last week, Parliament approved a package of amendments to the value-added law that exempts a wide range of goods and services from the tax, including agricultural products such as seeds, vegetables and locally produced fruits.

with the state's efforts to stimulate this sector, especially since many goods that are seen as unnecessary for citizens are mainly consumed in the tourism and hotel sector. Has the return on these fees been studied in light of the elasticity of demand and an estimate made of the net effect?

5. These amendments come at an inappropriate time that did not take into account the high rates of inflation globally and its repercussions locally, as well as the uncertainty that dominates the global economic scene due to the spread of new variants of the Corona virus.

### **Third, technical comments related to the mechanisms for implementing the amendments**

1. While the amendments stipulated increases with specific percentages in certain commodities, they lacked specificity in other areas and left the determination of some types of commodities to the discretion of the Minister of Finance.
2. The amendments provided for calculating the increase in the value of the final product, and did not clarify whether this value was before or after the imposition of value-added tax and schedule tax. For example, if 2% is imposed on the price of the original product, the final increase will be of the same percentage, but if fundraising fees are imposed after adding customs and value-added tax, the increase rate may reach about 5%.

### **Worthy of Note:**

Frequently amending taxes, in any country, makes it seem that the country is turning into a tax-dependent state, while the goal should be to enhance the state's resources in a sustainable

manner that increases confidence in the state, taking into account all considerations of economic efficiency and social justice.

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