3 Egypt

Hany Fathey Abdelmohimen

I Introduction

Geography and population

Location: Northern Africa, bordering the Mediterranean Sea, between Libya and the Gaza Strip. Formal Name: Arab Republic of Egypt and conventional short name, Egypt. The tem of Citizen: Egyptian(S) and Capital is Cairo. Head of state: President Hosni Mubark (re-elected for fourth term Sep 1999). Area 1.001.499 square km. land 995.450sq km and water: 6.049 sq km Climate: desert; hot; dry summers with moderate winters and terrain: vast desert plateau interrupted by Nile valley and delta. Population: 70.83 million (2004). Birth rate: 25.38 births/1.000 population and death rate 7.83 death/1.000 population. Net migration rate:-.35 migrants/1000 population. Official language: Arabic (official), English and French widely understood by educated classes. Natural resources: petroleum, natural gas, iron ore, phosphates, manganese, limestone, gypsum, talc, asbestos, lead, zinc. Natural hazards: periodic droughts; frequent earthquakes, flash floods, landslides, volcanic activity; hot; driving windstorm called khamsin occurs in spring; dust storms, sandstorms. There are controls Sinai Peninsula only land bridge between India Ocean and Mediterranean Sea; and size. Main cities: Cairo (capital, estimated population 7.9 million in 2003); Greater Cairo, 10.6 million, is the largest city in Africa. Other cities include Alexandria (3.8 million), Giza (2.6 million), and Religions: Muslim (mostly Sunni) 94%, Coptic Christian and other 6%.

Political structure

Under the 1971 constitution, amended, amended in 1980, Egypt is an Arab Republic with a democratic socialist system. The constitution states that there should be no discrimination on the grounds of race or religion. The country is divided into 26 governorates, with governors appointed by the president. And the form of state is Democratic socialist republic.

Executive branch: chief of state: President Mohamed Hosni Mubark (since 14 October 1981), Cabinet appointed by the president and president nominated by the people's Assembly for a six-year term, the nominated must then be validated by a national, popular referendum; national referendum last held 26 September 1999(next to be held NA October 2005);prime minister appointed by the president.

Legislative branch: bicameral system consists of the People Assembly or Majlis al- Sha'b (454 seats; 444 elected by popular vote, 10 appointed by the president; members serve five- year terms), elections: People's Assembly- last held NA November 2000 (next to be held NA November 2005); A second 264- member chamber, the Majlis al Shura (consultative Assembly), has no legislative powers and acts only in an advisory capacity. Two- thirds of the member are elected by direct universal suffrage, with the proviso that half are blue-collar workers and peasants, and the remaining one- third are appointed by the president. The term of office is six years, with half of the members standing for re- election every three years

Judicial branch: the legal system is based on the constitution of 1971. Officially, Egyptian law based on sharia (Islamic law), although in practice it is based on English common law and the French Napoleonic code. Christians and Jews are subject to their own jurisprudence in personal status affairs. The Court of Cassation consists of five judges, is the highest court of appeal. Courts of appeal sit in Cairo and four other cities. Central tribunals handle ordinary civil and commercial cases. Summary tribunals deal with both civil and criminal cases and have the power to impose fines and decree three- year prison terms.

Education

In 2000, adult illiteracy was 33.3 per cent for men and 56.1 per cent for women. Primary education (ages 6-12) is compulsory and free. This followed by three years of intermediate school and three years of secondary school, which is also free although not compulsory. Primary school enrolment is 101 per cent of the relevant age group (owing to returnees), 100 per cent for boys and 79 percent for girls. Enrolment in intermediate and secondary school is 75 per cent of the relevant age group, 79 per cent for boys and 58 per cent for girls.

University graduates have long been guaranteed employment by the state, and this has contributed to the growth of a bloated and overstaffed state bureaucracy. The desire by graduate for office- based professional employment has led to a shortage of skilled technical labor. The government is encouraging more students to go to into technical education. Enrolment in Egypt is equivalent to 23 per cent of the relevant age-group.

Health and Welfare

Health care in the private sector has become increasingly popular in recent years, especially in Cairo, with the construction of a number of private hospitals that provide an alternative to the severely over- stretched public health service. The general decline in living standards has placed many private- sector health care institutions in financial difficulties. Family planning is widely available and officially encouraged, although many religious leaders continue to preach that it is against Islam. However, the population continues to grow and the government expects it to double to 119 million over the next 30 years, even if the target of halving the average family size is achieved. Social security provisions include sickness benefits, pensions, health insurance, training and subsidies on basic goods, including pharmaceuticals. The government places particular stress on the improvement of rural living standards and has established rural social units to provide health, education and agricultural services. Social services include care for mothers and children, the aged, the handicapped and prisoners, family planning, cultural education and literacy courses. The government, employers and employees contribute to a national insurance scheme that covers pensions and sickness benefit. A social development fund was established by the government in 1992 to provide retraining, unemployment insurance and assistance to people who lose their jobs as a result of reform and the privatization of public enterprises. The International Development Association (IDA) granted to a credit of 140US$ million for this purpose and the fund is also supported by other financial sources.

Tourism

Egypt is the Gift of Nile as described by Herodotus. The Nile valley alone remained for thousand of years the permanent residence for Egyptian where the world first agriculture community was founded and developed as a stable human settlement along the Nile valley. Egypt is well-endowed with tourism resources, not only historical places such as Cairo, Giza, Luxor and Aswan with their traditional archeological wealth but also multiple and diverse tourist assets allowing the promotion of various tourism patterns such as leisure and beach tourism, religious tourism therapeutic tourism, desert safaris, incentives, conferences and exhibitions, eco- tourism sports, in addition to enriching the tourism agenda by offering festivals and leisure activities of artistic and culture nature, shopping, sports contests, etc.

In recent years, the government has been pursuing the development of several tourist areas as new resorts for beach and leisure tourism.

The Egyptian tourism has become the most important export sector, and currently the primary source of foreign earnings for the national economy contributing by nearly $4.6 billion in calendar year 2003. The industry is also labor intensive, directly and indirectly generating 2.2 million jobs. Moreover, the tourist industry contributes by 11.3% to the GDP, and by L.E. 2.8 billion to public revenues in the form of taxes and fees imposed on tourist expenditure.

II. Overview of Macroeconomic Activity and Fiscal Position

Some 12 years ago, the Government of Egypt took an irreversible decision to become an active member of the global economy. This invariably entailed embracing open market- oriented policies and launching a comprehensive economic and social reform program in order to pave the way for the ultimate objective of trade liberalization. Successful trade liberalization would lead to an expansion of exports, and higher and sustainable economic growth rates. This objective is a primary occupation of the Government in order to generate employment opportunities for the young and growing labor force. The Government also recognizes that the transformation to a liberalized market will be fostered by the growth of the private sector. The role of the state in growth and development has therefore steadily declined, and the share of private sector activity in GDP has steadily inversed to reach 73 percent in 2002/2003.

Egypt's commitment to economic change and development is longstanding. During the 1980's the Government initiated a set of reforms in the agriculture sector. These reforms aimed at agricultural price liberalization and the elimination of land- use controls for many crops. In 1991 the Government aimed to continue the agenda of reforms initiated in the 1980's. It started a comprehensive economic reform program that successfully achieved macroeconomic stability. Other objectives of the program were the development of free markets, the promotion of private sector based resource allocation, and the stimulation of export- based trade. The crucial policy challenge that faced the Government in 1990/91 was how to achieve stabilization and adjustment while minimizing social costs. Thus the government embarked on a program to reduce inflation, cut down the budget deficit and improves the current account. The reform was also accompanied by an extensive structural transformation and a substantial relaxation of trade restrictions. The reduction in tariff and non- tariff barriers fostered an adjustment in relative prices and allocation of resources towards the export sector. The view was too reactive the economy's long term growth momentum.

Central to the success of the reform program were three elements: a major fiscal adjustment, exchange market reform, and a supportive monetary policy. The combination of these elements brought about a significant reduction in inflation and a fundamental improvement in the external position. Between fiscal years 1990/91and 1995/96, the budget deficit declined from 20.2 percent to 1.3 percent of GDP. Inflation rates declined from over 14.5 percent to 7.3 percent, and the budget deficit from 20.2 percent of GDP to 1.3 percent. Foreign dept service fell from 25.8 percent of current account receipts to less than 11 percent. As a percentage of GDP, foreign debt fell from 107 percent to 45.9 percent.

The exchange rate system was liberalized and unified, and the Egyptian pound was effectively pegged to the U.S. dollar. In addition, various trade and investment policies were adopted to foster a market oriented economy, and price controls were largely abandoned. Restrictions on current and capital account transactions were also removed.

Egypt's economic performance between 1996/1997 and 1998/1999 has also been relatively good despite three exogenous shocks- the Asian crisis, the Luxor incident and the deterioration of international oil price. Economic growth was sustained at about 5.5 percent. Over the same period, inflation continued to recede from 6.2 percent in 1996/97 to 3.8 percent in June 1999(comparable to levels in major industrial economies), and unemployment declined from 8.8 percent to 8.2 percent.

The external position compared positively by peer standards. Debt indicator was exceptionally good, in addition to having a favorable maturity profile and confessional terms. Foreign debt services as a percent of current account receipts continued is downward trend to reach 7.2 percent in June 1999. As a percentage of GDP, foreign dept further declined to 31.2 percent. International reserves were high in relation to standard benchmarks, covering 13 months of imports and slightly less than 10 fold the stock of short- term debt.

Economic reforms during 1990's were more concerned with stabilization, inflation and the balance of payments, and helped lay the groundwork for current trade liberalization efforts. The objectives of this phase of reform are design and implement trade policies that would support prudent macroeconomic management and that would be more conducive to rapid and long term structural changes, growth and development. This would improve living standard of Egyptians. Institutional transformation because crucial to trade reforms and interacts significantly with the long term establishment of trade liberalization.

Nevertheless, the liberalization of trade, the promotion ox exports and foreign direct investment, and the institutional development have been paramount on Egypt's priority list of reforms during recent years, and are viewed as important foundation for sustained economic growth and investment. In June 1995, Egypt acceded to the WTO. At the time it was preparing for its WTO accession,

Egypt pursued a very effective structural adjustment program that included liberalizing trade policy through reduced tariffs and the elimination of non-tariff barriers. The agreement reached in Doha in November 2001 to lunch a new trade round that addresses the concerns of developing countries will-in the longer term- give Egypt more access to world export markets.

To effectively advance and institutionalize a liberalized trade regime, Egypt will pursue trade reform (i) compliance with its WTO commitments; and (ii) implementing free trade agreements that (a) provide a context for a phased liberalization of trade by providing a framework to clarify and simplify trade practices; and (b) position Egypt as an attractive strategic base for foreign investment in exportable. The agreements would also support efforts to create an enabling environment for business, both domestic and foreign.

In June 1998, Egypt joined the 21 member Common Market for Eastern and Southern Africa (COMESA) and reduced tariffs with other COMESA countries by 90%, with a view to establishing a customs union by 2004 and a monetary union by 2025.

In July 1999, Egypt and the United States signed a trade and investment free trade agreement (TIFA). TIFA's objective is to enhance the trade co- operation between the two countries, by facilitating greater reciprocal access to the respective markets of both countries through the removal of non- tariff barriers and other impediments to trade and investment flows.

Egypt has also negotiated and initialed a partnership agreement with European Union in January 2001. The agreement was signed in June of the same year. The Egyptian Parliament ratified the agreement in March 2003. An interim agreement signed in December 2003, enables the early application of trade provision in the Association Agreement. The agreement will permit Egypt to join the proposed Euro-Mediterranean free-trade zone, to be established by2010. The agreement provides for a 12-year transitional period, during which tariffs and non- tariff barriers will be phased out.

In addition, the Government continues to reinvigorate structure reforms and continued to open up the economy and promote private sector participation in the economy. The government also followed more flexible macroeconomic policies with the aim of restoring the gains achieved in the early 1990's.

A number of positive policy changes in the fiscal area were undertaken. The general Sales Tax (GST) was extended to the retail and wholesale stages. In addition, the Ministry of Finance is currently proceeding with reforms in income taxation, customs tariff and administration. The budget deficit was stabilized, despite in settlement of a sizable portion of arrears incurred on investment projects and the economic slowdown in 1999/2000 and 2000/2001. The broadly stable fiscal position achieved will enable the continuation of fiscal reforms. The ensuing reduction in government borrowing provided scope for a recovery in investment and growth. Between 1999 and 2003 private sector credit increased by an average of 10.3 percent per year.

The improved macroeconomic fundamentals as reflected in a strong balance of payments provided a favorable backdrop for the implement of the new exchange rate system. The National Democratic Party made a clear commitment to exchange rate flexibility during the Eighth General Conference held in September 2002. Thus with a view to restoring macroeconomic balance, the Central Bank of Egypt announced in January 2003 full domestic convertibility of the Egyptian pound. This is a major and positive step forward that will help attract foreign direct investment and establish creditability of economic policy. The floatation comes as a culmination of a decade long reform of the exchange system and the external sector. The new exchange rate system is being supported by a strengthened monetary policy framework. The Central Bank recently announced plans for an inflation- targeting monetary policy.

As a result of the fiscal monetary policy mix, the fiscal deficit remained steady, international reserves stabilized. As anticipated, the floatation of the pound contributed to an increase in the consumer price index. Inflation rates reversed their downward trend of the past years, reaching 5.2% in October 2003, compared with 2.8%in October of last year.

Other external indicators are positive. In June 2003, foreign debt services as a percent of current account receipts was 9.8 percent, while total external debt relative to GDP was some 35.6 percent. International reserve covers some 12 months of imports and around 7.9 times the stock of short- term debt. The current account witnessed a surplus for the second year in a row by end June 2003.

Greater exchange rate flexibility is also critical part of Egypt's strategy for achieving competitiveness in the international markets and supporting the higher growth rates needed to create employment. The increased flexibility was intended to enhance the competitiveness of Egyptian exports. The improvement in exports was reflected in a strengthening of the trade balance which narrowed by some US$1.4 billion in June 2002 and another 900 million in June 2003.

The combination of the above elements enables the economy to steer on a stable course and show steadfast economic resilience in the face of three shocks: the 1997 Asian crisis and the slow recovery of the world economy, the drop in international world prices facing Egypt's oil exports, and the temporary decline in tourism during 1997/98 following the Luxor incident.

In addition, the economy showed a faster than expected recovery after September 11, 2001. In a nutshell, the economy has much stronger fundamentals compared to its position in the early 1990's. This favorable outcome is a testament to the improved buoyancy of the economy following the unwavering pursuit of a prudent macroeconomic policy mix, and the implementation of far- reaching structural reforms.

II.1 Macroeconomic Activity

A. International Environment

Trade Balance and current account balance

The government of Egypt (GOE) has implemented a number of import policies to promote greater trade liberalization. Egypt become a member of the World Trade Organization in 1995 and has pledged to be in full compliance with its trade commitments to the WTO by 2005. Over the last two years, however, progress towards the goal of trade reform has been uneven. Although the government recognizes the need to eliminate non-tariff barriers to trade, red tape, cumbersome bureaucracy, and rigorous enforcement of Egyptian standards remain significant problems and add to the cost of doing business.

Egypt has made progress in liberalizing its tariff structure. In 1998 Egypt reduced the maximum tariff rate for most imports from a high of 50percent to 40 percent. In keeping with its Uruguay Round commitments, over 98 percent of Egypt's tariffs are bound tariffs. However, Egypt's tariffs remain relatively high, especially when compared with those of other developing countries with large internal markets and diversified industrial economies. In addition to tariffs, Egypt assesses a service and inspection fee of one percent on imports. Egypt also applies an additional surcharge of two percent on goods subject to import duties of 5 percent to 29 percent, and a surcharge of three percent on goods subject to duties of 30 percent or more.

Egypt applies a discriminatory sales tax of 10percent on high quality imported flour, which is not applied to locally produced flour. Although the stated maximum tariff rate is 40 percent, Egypt maintains a number of exceptions to this level. In the fall of 2000 the GOE increased the tariff rate to 50 percent of non- fat powdered milk as a safeguard measure. In 2001, the non- fat powdered milk safeguard tariff was reduced to 15 percent and will be reduced further to 7 percent in 2002 and to 3 percent in 2003. A ban on fabric imports was lifted in 1998, and a ban on garment imports was lifted in January 2002, in accord with WTO requirements. However, tariffs on textiles are well over 50 percent, and as of January 1, 2002, garments are subject to a per piece duty ranging up to 1,400 Egyptian pounds per item. The tariffs on passenger cars with engines over 1300 cc are 100 percent to 135 percent, and on poultry are 80 percent. There is a 300 percent duty on wine for use in hotels, and a 3000percent rate on alcoholic beverages for general importers.

On July 1, 2001, the Egyptian customs Authority began implementing the WTO agreement on customs valuation, which bases customs duties upon the invoice for the importer's goods rather than the previous reference- based system. It will take some time for the invoice-based system to be fully implemented. In the meantime importers face a confusing mix of the new and old systems. Egypt originally was to have implemented the WTO system in July2000, but it received a one-year extension. Computerization of customs operations should improve efficiency and reduce the time required to clear goods. In 1994 Egypt adopted the Harmonized System of customs classification.

The following table 1 shows the Balance of Payments: current account (quarterly profile) according to trade balance, exports proceeds, imports payments, net services, payment and balance of goods and services. Table 2 shows the International Trade by Region which includes Africa, Asia, Eastern European, European, North America, Latin America, and others during the period from (Jan-May 2004). Table 3 shows External Sector from 1997/1998 to 2003/2004.

Table 1 Balance of Payments: Current Account (Quarterly Profile)

US$ Million	2001/02			2002/03 *				2003/04 *		
	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3
Trade Balance	1879-	1516-	1882-	2106-	1898-	1332-	1279-	1627-	1835-	1941-
Exports Proceeds	1744	1691	1827	1825	1908	2173	2300	2227	2287	2890
Petroleum	585	535	629	621	696	963	881	827	875	1149
Non Oil Exports	1159	1157	1197	1203	1212	1211	1419	1400	1412	1741
Imports Payments	3623-	3207-	3709-	3931-	3805-	3505-	3579-	3854-	4122-	4831-
Services (net)	692	873	1050	1316	1134	1072	1427	2287	1550	1543
Receipts	2063	2276	2449	2816	2478	2453	2694	3541	2963	3126
Transportation, of Which	670	670	691	777	659	747	782	867	902	985
Suez Canal Dues	461	435	456	530	518	550	639	682	692	727
Travel	587	810	879	1139	936	813	909	1633	1229	1293
Investment Income	234	185	200	164	150	165	163	138	112	129
Government Services	69	27	52	32	83	78	61	74	23	22
Other Receipts	503	583	627	705	651	650	780	829	696	697
Payments	1371	1403	1399	1501	1344	1381	1267	1254	1413	1583
Transportation	91	79	100	69	71	133	120	138	125	208
Travel	336	286	263	329	395	362	287	272	400	379
Investment Income, of Which	108	290	176	263	113	248	125	229	112	233
Interest Paid	105	220	104	215	110	193	108	194	107	189
Government Expenditures	161	252	119	124	121	96	115	121	105	131
Other Payments	675	497	741	716	645	543	621	494	672	632
Balance of Goods & Services	1187-	643-	832-	791-	764-	259-	148	660	285-	399-
Transfers	978	1002	1147	890	914	781	1024	855	936	930
Official (net)	130	335	377	140	176	94	254	133	185	178
Private (net)	848	667	770	749	739	687	771	723	752	752
Balance of Current Account	209-	359	315	99	150	522	1172	1516	652	531

Sources: Central Bank of Egypt
* Preliminary.
# Revised Figures
Note: Data in this table are based on banking sector compilation based on cash transaction. It may differ from data compiled by CAPMAS which are based on Custom Authorities' records of movement of goods

Table 2 International Trade by Region (Jan-May2004)

Region	Exports	Imports
Africa	**7%**	**7%**
Asia	**31%**	**22%**
European	**31%**	**26%**
Eastern Europe	**8%**	**13%**
Latin America	**o.5%**	**7%**
North America	**7%**	**10%**
Others	**15.5%**	**15%**

Source: CAPMAS

Table 3 External Sector

(In Percent of GDP - Unless otherwise Stated)	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	2003/04
Trade Balance (US$ Million)	-11,771	-12,563	-11,472	-9,363	-7,516	-6,615	-7,523
	-13.9	-13.9	-11.6	-10.0	-8.6	-8.2	-10.2
Total Exports (US$ Million)	5,128	4,445	6,388	7,078	7,121	8,205	10,453
	6.1	4.9	6.5	7.6	8.2	10.1	14.2
Non Oil Exports (US$ Million)	3,400	3,445	4,115	4,446	4,740	5,045	6,542
	4.0	3.8	4.2	4.8	5.4	6.2	8.9
Total Imports (US$ Million)	16,899	17,008	17,860	16,441	14,637	14,820	17,975
	20.0	18.8	18.1	17.6	16.8	18.3	24.3
Current Account Balance (US$ Million)	-2,479	-1,724	-1,163	-33	614	1,943	3,729
Current Account Balance	-2.9	-1.9	-1.2	-0.04	0.70	2.40	5.05
Overall BOP Balance	-0.2	-2.3	-3.1	-0.9	-0.5	0.7	-0.2

Sources: Central Bank of Egypt and capital market Authority

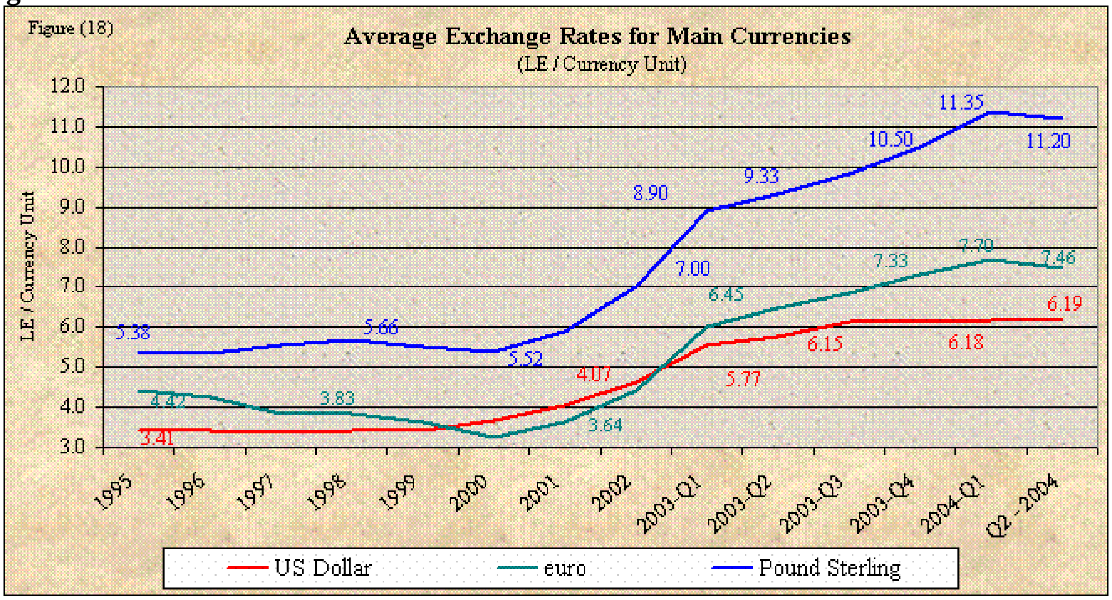
Exchange rate and exchange system

Egypt used the exchange rate as an anchor to its economic stabilization program. Substitution phenomenon (CS) in Egypt started with a very high level (51% of M2 was in the form of foreign currency deposits) and experienced a steady decline till it reached less than 20% in 1999. But now the policy of exchange rate anchoring is more suitable to a high CS environment, and more effective in reducing the rate of substitution. However, this policy is not free of costs. As for the inflation targeting policy, the implication is that the policy can be effective in achieving its objective as long as the CS is insignificant. In an environment of high CS, monetary authorities should consider switching to the exchange rate anchoring policy. The central Bank of Egypt (CBE) announced in early July 2001 a second change in the US dollar central rate from LE 3.86 to LE 3.90. The trading band was winded to ±1.5% for the US dollar and Arab Currencies and ±2% for other foreign currencies. CBE aims at alleviating pressures in the foreign exchange market as commercial banks have continually reported shortages in dollars and the CBE has refrained from releasing reserves. The magnitudes of changes in the central rate that have been carried out lately are inline with the government's policy of gradual reform, yet it is a step in the right direction.

Table 4: Exchange Rates (LE / Currency units) [/1]

	1998	1999	2000	2001	2002	2003	Jan-June 2004
US Dollar	3.4132	3.4184	3.6522	4.0673	4.6320	5.8613	6.1875
Pound Sterling	5.6637	5.5213	5.3807	5.8717	7.0031	9.5951	11.1963
Euro [/2]	3.8355	3.6229	3.2744	3.6440	4.4074	6.6538	7.4638

Figure 1



Foreign direct investment

If country's strength resides less in the physical resources at its disposal than in the speed at which it adapts to change, Egypt in 2002 has grown far stronger since it adopted a package of reform measure only a few decades ago. In the early 1980s, Egypt began to upgrade the national infrastructure: electricity, roads, ports, telecommunications and basic services. Today, a modern and efficient infrastructure network, which is a fundamental pre-requisite for increased foreign and domestic investments, covers most of the country.

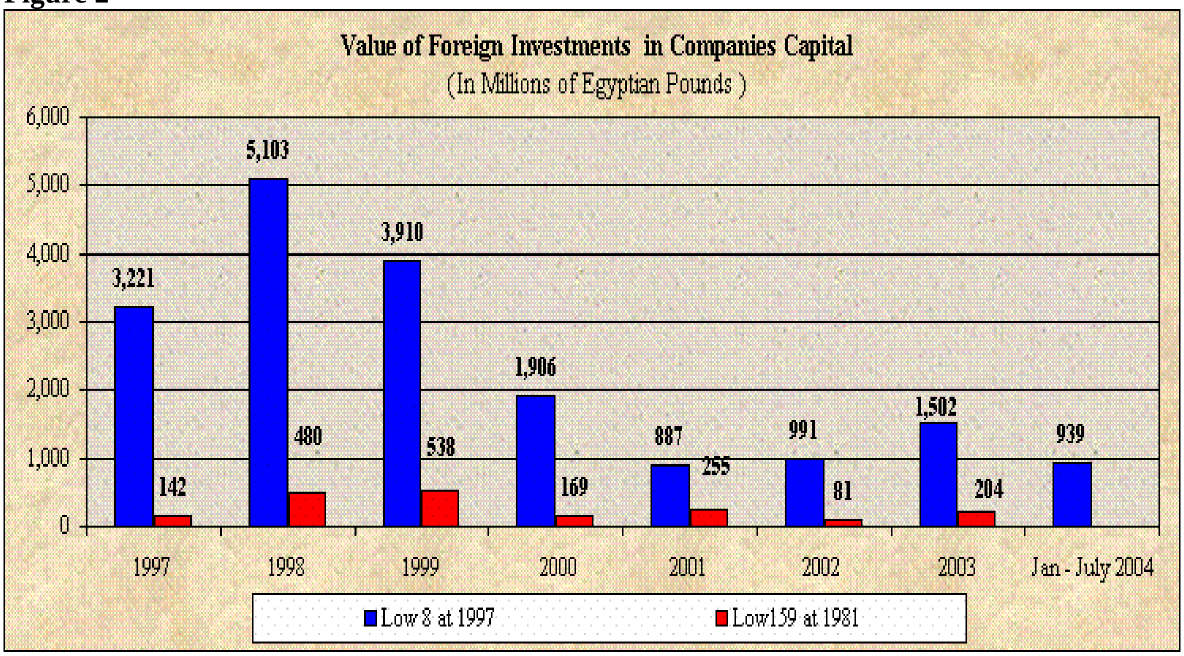
In the 1990s, the government adopted a major and comprehensive financial and economic reform program, ushering in an era of efficient economic management and financial discipline. This program set the foundations for a dynamic, high-growth economy. Over the course of a decade, reforms have put in place a market-based, liberal, privately led economy that is truly capable of facing global competition in the twenty-first century. By revamping market conditions, renewing and consolidating the infrastructure, dismantling bureaucratic barriers and streamlining procedures. Egypt is ensuring that its economy becomes one of the most open, resilient and internationally integrated markets in the region, and indeed worldwide. Characterized by diversity, the Egyptian economy enjoys a rich natural resource base, highly integrated manufacturing capacities, a flourishing agricultural sector, ample attractions for tourism, and skillful labor force; these factors, combined, provide the country with a remarkable potential for sustainable growth. Beyond such promising developments as revitalized agriculture and progress in the manufacturing sector, improved roads, telecommunications and power providers all offer an excellent environment for investments. The banking, insurance and capital markets have been reformed to provide the necessary financial services as well as considerable profit opportunities.

Egypt's economy is the second largest in Arab world, and the largest in North Africa according to the last World Bank report. So those considering investment in Egypt will find a substantial pool of resources, natural and human, at their disposal. Investors seeking to exploit untapped opportunities can offer Egypt technology, know-how and other skills essential to the sustainable growth of a vibrant economy eagerly moving into the twenty-first century

Table 5 Foreign Investments (Issued Capital)

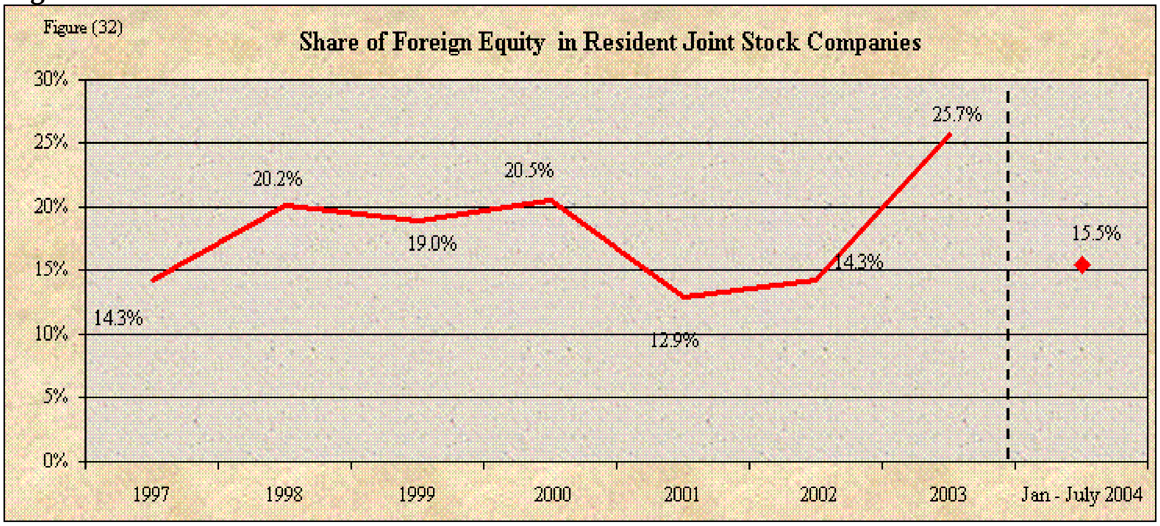
(LE Million)	1997	1998	1999	2000	2001	2002	2003	Jan-July 2004
According to law 8 at 1997 1/								
Issued Capital	22,447	25,314	20,583	9,302	6,899	6,911	14,693	14,026
Foreign Participation	3,221	5,103	3,910	1,906	887	991	1,502	939
Percent to Total	14.3%	20.2%	19.0 %	20.5 %	12.9%	14.3%	25.7%	15.5%
According to law 159 at 1981								
Issued Capital	5,939	6,539	4,475	2,616	1,397	1,704	3,179	2,980
Foreign Participation	142	480	538	169	255	81	204	51.7
Percent to Total	2.4%	7.3%	12.0 %	6.4%	18.3%	4.8%	18.3%	7.2%

Figure 2



Source: Ministry of Investment GAFI.

Figure 3



Source: Ministry of Investment GAFI.

Borrowing from abroad, Aid

Egypt's outstanding external debt remained approximately unchanged at the end of February 2004 (aboutUS$29.5 billion) nearly the same level of the end of January 2004.

Short-term external debt represented a minor weight (6%) of the total. With regard to the private sector, non-guaranteed debt remained within the limits of US$214 million, representing 0.7% of the total.

Egypt is current in servicing its external debt. For the eight months ended in February 2004 of the fiscal year 2003/2004, repayments pertaining to medium and long term debt have reached about US$1.3 billion, whereas new disbursements have accounted for only US0.7 billion.

Table 6 External Debt Indicators

External Debt Indicators (End Period, In percent of GDP - Unless otherwise Stated)	1996/97	1997/98	1998/99	1999/2000	2000/2001	2001/2002	2002/2003
Total External Debt (US$ Million)	**28,774**	**28,076**	**28,224**	**27,783**	**26,560**	**28,661**	**28,748**
Total External Debt (of which):	36.7	33.2	31.2	28.2	28.5	32.8	35.6
Short Term Debt	2.0	2.0	2.0	1.6	2.4	2.5	2.3
Foreign Debt Service	2.2	2.0	1.6	1.8	1.8	2.3	2.7
Debt Service Ratio 1/	8.2	8.5	7.2	8.0	7.3	9.5	9.8
Net International Reserves as Number of Months of Imports 2/	15.7	14.3	12.7	10.2	10.4	11.6	12.0
NIR To Short Term External Debt (folds)	13.2	11.7	9.9	9.3	6.5	6.6	7.9

Sources: Central Bank of Egypt & Capital Market Authority.
1/ Stands for the ratio of external debt service to current account receipts. Current account receipts include proceeds from export of goods and services and total transfers.
2/ Includes imports of goods only.

B. Domestic Environment

Economic growth rate (GDP), Inflation rate.

The Egyptian economy resumed accelerated growth during the period following the consistent and diligent implementation of stabilization and structural adjustment program, the

Economic Reform and Structural Adjustment program (ERSAP) from 1991. Real GDP growth reached 6.3 per cent in 1999/2000 from 6.0 per cent in 1998/99. The accelerated growth was boosted by the large investments in infrastructural and strategic projects and achieved in spite of the negative impact of external constraints including declines in oil revenues, tourism receipts and Suez Canal revenues. Growth in the major sectors of the economy has been uneven during 1999/2000. Growth in agricultural sector fell to 3 percent in 1999/2000 from 3.7 percent in 1998/99. The share of agriculture in total GDP had followed a steady decline from its highs of about 26 percent in the 1970s. In spite of the fall in its share in GDP, value added in Egyptian agriculture has been growing steadily, and the sector continued to employ about 29 per cent of the labor force and account for about 11 per cent of export earnings in 1999/2000. Egypt enjoys significant comparative advantage in the production of crops such as rice and cotton. The livestock sub-sector largely serves the domestic markets as a source of meat and dairy products. The industrial and mining sector increased its share in GDP from about 18 per cent in 1998/99 to about 20 per cent in 1999/2000, with a flat growth rate of 6.7 per cent each of both years. Growth in the sector during 1999/2000 benefited from significant rehabilitation and modernization processes especially in manufacturing. Although manufacturing, the largest industrial sub- sector, has been among the fastest growing sub-sectors in Egypt, its average growth rate was only 5.4 per cent per annum during 1996-2000. However, Egypt's manufacturing exports have been in decline owing to growing domestic demand and the attractiveness of selling in the domestic market due to the appreciation of the real exchange rate. Within the energy sector (petroleum and electricity) crude oil production continued a downward trend with production falling to an average 670000 barrels per day in 1999/2000 compared with 780000 in 1998/99 and 800000 in 1997/98. However, significant increase in natural gas production succeeded in offsetting the decline in crude oil production for the sector to maintain its9 per cent contribution to GDP. A distributing feature of the growth performance is that characterized by low domestic savings, reflecting the high consumption/GDP ratios. The growth performance thus has a strong reliance on foreign savings. The situation reflects a banking system in Egypt that does not facilitate savings. Egypt's commercial banking system in dominated by four sector banks with minimal competition to enhance savings mobilization. The structure of demand continue in 2000/2001 and 2001/02 with total consumption and domestic investment estimated at similar shares in total GDP. The inflation rate fell sharply, reaching 2.8%in 1999/2000, 2.4% in 2001 and 2.9 in 2002; the decline in continuing, even the slight increase is insignificant and the inflation rate will soon be in line with averages prevailing among Egypt's EU trading partners.

Employment

Egypt's workforce is around 16 million and is considered an excellent source of productive, inexpensive labor since sustained high level of unemployment have kept wages low. An employment rate decreased from over 10% early nineties to around 8% end of year2003

Consumption

Middle-income households make up most of Egypt's total household expenditure. In 1992, expenditures by middle- income households represented 56% of the $30 billion spent by the country's 12 million households. Household expenditures in rural and urban areas are growing at 3.5 % per annum in normal terms. The total expenditures of urban households are one a half times that of rural households, although both exhibit the same spending patterns. Most households spend extravagantly on food and beverage products as well as clothing and footwear. Almost 10% of total household expenditure is channeled toward the purchasing of clothing and footwear. A large chunk-60% of total household expenditures- goes toward education, culture and sports. Upper- class households spend the most on recreation and sport, and this trend has encouraged various businesses to branch out and invest in education as well as fitness and entertainment.

Reflecting of household rising consumption and expenditure is the rising growth rate of electricity consumption that has so far reached an average of 7% per annum.
The middle class is mostly seen to be increasingly on such equipment as microwaves, stereos, videos, washing machines, and cellular phones which reflect the change of lifestyle resulting from the recent improvement in the standard of living.

Table 7 Gross Domestic Product by Sources and Uses (in current prices)

(In Billion of Egyptian Pounds)	1996/97	1997/98	1998/99	1999/00	2000/2001	2001/2002	2002/2003
Total Sources	332.1	361.3	379.3	417.7	438.8	464.9	516.0
GDP at Market Prices	265.9	287.4	307.6	340.1	358.7	378.5	415.0
GDP at Factor Cost	247.0	266.7	282.6	315.7	332.5	354.5	388.1
Net Indirect Taxes	18.9	20.7	25.0	24.4	26.2	24.0	26.9
Imports (Goods & Services)	66.2	73.9	71.7	77.6	80.1	86.4	101.0
Total Uses	332.1	361.3	379.3	417.7	438.9	464.9	516.0
Final Consumption	235.3	252.9	266.5	296.1	310.6	326.2	355.0
Household Consumption	205.2	220.4	230.8	258.0	270.0	279.0	303.0
Public Consumption	30.1	32.5	35.7	38.1	40.6	47.2	52.0
Capitalization	46.7	61.8	66.5	66.5	65.5	69.2	71.0
Fixed Capital	47.7	61.3	64.0	64.4	63.6	67.5	68.1
Change in Inventory	-1.0	0.5	2.5	2.1	1.9	1.7	2.9
Exports of Goods and Services /1	50.1	46.6	46.3	55.1	62.7	69.5	90.0

Source: Ministry of Planning.
1/ Includes the share of foreign partner in petroleum activities.

Table 8 Gross Domestic Product at Factor Cost 1/ Current prices- Annual Profile
(In Millions Egyptian pounds)

	1996/97	1997/98	1998/99	1999/00	2000/2001	2001/2002	2002/2003
Total GDP	247,028	266,758	282,578	315,667	332,544	354,564	388,060
Total Commodity Sector	118,992	127,978	136,296	157,432	165,899	181,828	197,017
Agriculture	41,882	45,652	48,935	52,845	55,065	58,369	62,577
Industry & Mining	43,383	48,798	55,225	61,211	63,483	67,882	73,516
Petroleum & Products	17,461	15,534	12,995	23,300	26,300	31,562	63,118
Electricity & Water Utilities	4,172	4,264	4,586	4,936	5,291	7,455	8,096
Construction & Building	12,094	13,730	14,555	15,140	15,760	16,560	16,710
Total Production Services	82,889	89,072	95,573	101,794	106,858	111,636	123,937
Transportation 3/	22,695	24,049	25,916	27,909	30,112	31,952	36,936
Trade, Finance, and Insurance	56,364	61,690	63,975	68,960	71,389	73,227	79,273
Hotels and Restaurants	3,830	3,332	3,682	4,925	5,357	6,457	7,728
Total Social Services	45,147	49,708	52,709	56,441	59,787	61,000	67,106
Housing and Real Estate	4,375	4,860	5,412	6,003	6,879	13,5923	14,651
Government Services (Utilities)	915	1,038	1,179	1,305	1,445	35,269	39,925
Social Insurance	165	185	214	236	261	--	--
Government Social Services	39,692	43,625	45,904	48,897	51,202	11,908	12,530

Source: Ministry of Planning

Table 9 Distribution of Investments by Economic Agent (2002/2003)

Sectors	Rate
Private Business Sector	49%
Public Business Sector	6%
Government	32%
Economic Authorities	13%
Total	100%

Source: Ministry of Finance.

Consumption

Middle-income households make up most of Egypt's total household expenditure. In 1992, expenditures by middle- income households represented 56% of the $30 billion spent by the country's 12 million households. Household expenditures in rural and urban areas are growing at 3.5 % per annum in normal terms. The total expenditures of urban households are one a half times that of rural households, although both exhibit the same spending patterns. Most households spend extravagantly on food and beverage products as well as clothing and footwear. Almost 10% of total household expenditure is channeled toward the purchasing of clothing and footwear. A large chunk-60% of total household expenditures- goes toward education, culture and sports. Upper- class households spend the most on recreation and sport, and this trend has encouraged various businesses to branch out and invest in education as well as fitness and entertainment.

Reflecting of household rising consumption and expenditure is the rising growth rate of electricity consumption that has so far reached an average of 7% per annum.

The middle class is mostly seen to be increasingly on such equipment as microwaves, stereos, videos, washing machines, and cellular phones which reflect the change of lifestyle resulting from the recent improvement in the standard of living.

Capital Stock

The Egyptian Stock Market (ESM, henceforth) experienced number of developments and reforms measures on both the regulatory and infrastructure fronts resulting in upgrading the efficiency of the market. The main objectives of these reforms are to increase the market informational efficiency and attract foreign investments whether directly by mergers and acquisitions or indirectly via portfolio investments.

As a result the ESM played a pivotal role in speeding up the privatization program during 1995-1997. Furthermore, the ESM succeeded to be a mirror reflecting Egypt's economic performance especially in the last three years. During 2001 and2002 the market was continuously slowing down in terms of activity and prices. This was due to number of domestic and external factors mainly the increasing tension in the Middle East, the September 11th terrorist attack and increasing pressures on the Egyptian pounds value against major foreign currencies.

With the commencement of year 2003, the market started to reverse its negative performance and prices of active stocks were boosted yielding to new records in terms of indices levels and trading activity; a trend that haven't been seen since 1997. The government new foreign exchange policy of floating the Egyptian pound was the main vehicle that provided the momentum to market after it has been quite for a period of two years. Overall, expectations of better corporate results and improvement in some of leading economic indicators paved the way for a wave of optimism towards the stock market.

Furthermore, the government works progressively to frame the securities market reforms within the corporate governance principles issued by OECD and practices. The Egyptian government embarked on promoting and developing corporate governance culture among listed companies in the stock exchange.

Table 10 Capital Stock Indicators

(End-December Unless Otherwise Stated)	1997	1998	1999	2000	2001	2002	2003
Annual Return 4/	18.9	6.2	49.0	0.3	-2.1	3.6	23.5
Volume of Trading (Millions of Securities)	372.5	570.8	1,074.0	1,108.0	1,260.0	883.7	1,422.3
Value of Trading (LE million)	24,220	23,364	42,056	54,012	31,796	34,176	27,764
Turnover Ratio	34.2	22.3	31.9	38.2	22.1	21.5	13.8
Number of Listed Companies	650	861	1,033	1,076	1,110	1,151	978
Number of Companies Traded	416	551	663	659	643	671	540
As % of Total Listed Companies	64.0	64.0	64.2	61.2	57.9	58.3	55.2
Stock Market Capitalization as percent of GDP	27.7	39.9	34.3	35.6	30.2	31.1	42.4
New Issues (LE million)	19,435	35.303	55,573	20,452	11,185	11,652	--
Price / Earnings Ratio 3/	11.5	8.7	7.7	6.8	7.7	7.1	8.8
Annual Volatility (standard deviation) 5/	3.1	3.6	4.4	3.5	2.3	0.9	1.7

Sources: Center bank of Egypt and Capital Market Authority.

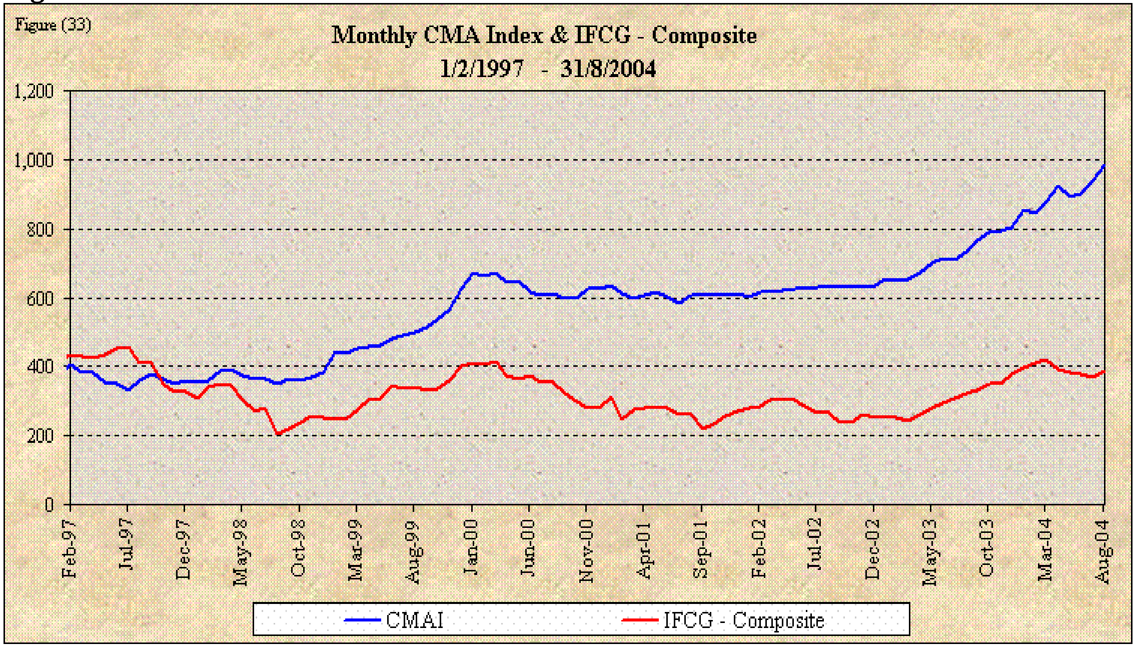
3/Excluding cash-dividends.

4/ The ratios are calculated according to the most actively traded stocks which represent 60 to 75 percent of the total capitalization of all shares listed in the stock exchange, following the IFCG indexes methodology.

5/ Market volatility represents the standard deviation of monthly returns during the year.

-- Figures unavailable.

Figure 4



Source: Capital Market Authority and Cairo& Alexandria Stock Exchange, Annual Report

Money Supply

The following table reflecting Broad Money, narrow money, reserve money, net foreign etc.

Table 11 Banks Deposits

(LE Millions of Egyptian Pounds)

	May-03	Oct-03	Nov-03	Dec-03	Jan-04	Feb-04	Mar04-	Apr-04	May-04
Total Deposits	**398,203**	**427,919**	**431,806**	**438,124**	**440,262**	**445,718**	**448,646**	**541,694**	**460,954**
	(19.7)	(21.9)	(21.7)	(21.9)	(16.6)	(16.6)	(16.0)	(15.4)	(15.8)
Local currency	**275,539**	**292,500**	**294,260**	**298,927**	**299,153**	**302,205**	**304,157**	**305,804**	**310,900**
	(13.1)	(13.6)	(12.8)	(12.9)	(12.3)	(13.3)	(12.8)	(12.8)	(12.8)
Government deposits	48,530	53,901	53,880	54,602	35,719	54,324	55,815	55,781	55,869
Non-government deposits 2/	227,009	238,599	240,380	244,325	245,434	247,881	248,342	250,023	255,031
Foreign Currencies	**122,664**	**135,419**	**137,546**	**139,197**	**141,109**	**143,513**	**144,489**	**145,890**	**150,054**
	(37.7)	(44.6)	(46.5)	(47.0)	(26.7)	(24.2)	(23.3)	(21.4)	(22.3)
Government deposits	18,817	21,384	22,206	23,196	23,903	24,238	24,316	25,790	26,185
Non-government deposits 2/	103,847	114,035	115,340	116,001	117,206	119,275	120,173	120,100	123,869

Sources: Central Bank of Egypt

Table 12 Monetary and Financial Sectors

(In Percent of Beginning Money Stock-Unless otherwise Stated)	1996/97	1997/98	1998/99	1999/2000	2000/2001	2001/2002	2002/2003 Preliminary
Broad Money (M2) (LE million)	**193,902**	**210,487**	**234,569**	**255,272**	**284,873**	**328,728**	**384,262**
Narrow Money (M1) (LE million)	**39,052**	**43,590**	**48,844**	**49,738**	**53,448**	**59,805**	**67,212**
Reserve Money (LE million)	**53,159**	**55,961**	**61,831**	**65,693**	**70,010**	**73,772**	**89,236**
Broad Money (M2) 2/	15.1	8.6	11.4	8.8	11.6	15.4	16.9
Net Foreign Assets	4.7	-5.7	-7.4	-2.6	-1.7	-0.6	2.5
Net Domestic Assets	10.4	14.2	18.9	11.4	13.3	16.0	14.4
Narrow Money (M1)	2.4	2.5	2.5	0.4	1.5	2.2	2.3
Reserve Money	3.9	1.4	2.8	1.6	1.7	1.3	4.7
Dollarization Rate (M2) 3/	19.4	17.9	17.3	18.8	21.3	23.2	27.3
Money Multiplier 4/	3.6	3.8	3.8	3.89	4.07	4.46	4.31
M2-Velocity 5/	1.47	1.42	1.39	1.39	1.33	1.23	1.16
Reserve Money Velocity 6/	5.34	5.27	5.22	5.33	5.29	5.26	5.09
Nominal Interest Rate 7/	9.8	8.8	8.82	9.09	9.09	7.80	8.31
Exchange Rate (End of Period Rate) 8/	3.389	3.388	3.396	3.446	3.858	4.510	6.032
Exchange Rate (Year Average)	3.389	3.395	3.396	3.446	3.850	4.338	5.133

2/ Currency in circulation + LE deposits + foreign currency denominated current and time deposits. Includes checks under collection. Checks under collection.
3/ Foreign currency component of M2/total liquidity
4/ M2/Reserve money.
5/ GDP/ M2 (centered).
6/ GDP / Reserve Money (centered).
7/ Based on 3-month T-bills average annual rates.
8/ Starting 2002/2003 rates are based on CBE buying rates only while prior to that data rates were based on the average of CBE buying / selling rates.

II.2 Fiscal Position

The following table presents data for the Fiscal sector in light of three complementing disaggregating fashions. The first includes the budget Sector, which refers to the Central and Local governments, and the Public Services Authorities. The second adds the National Investment Bank (NIB) operations to the Budget sector. Finally, the third definition (referred to as the Total Government Sector) adds the Social Insurance Fund (SIF) operation to the Budget Sector and NIB.

Table 13

	2001/2002 (Actual)			2002/2003 (Actual)			2003/2004 (Prel. Actual)*		
	The Budget Sector	The Budget NIB GASC	The Budget NIB GASC, SIF	The Budget Sector	The Budget NIB GASC	The Budget NIB GASC, SIF	The Budget Sector	The Budget NIB GASC	The Budget NIB GASC, SIF
I - TOTAL REVENUES and GRANTS	78,968	90,862	104,042	86,484	100,012	115,551	96,580	111,421	127,005
(a) Total Revenues	75,255	87,149	100,329	83,530	97,058	112,597	93,655	108,496	124,080
Current Revenues	74,060	85,954	99,134	81,449	94,977	110,516	91,987	106,828	122,412
Tax Revenues	51,726	51,726	51,726	57,486	57,486	57,486	65,581	65,581	65,581
Income tax	21,625	21,625	21,625	23,189	23,189	23,189	27,622	27,622	27,622
Goods and Services	20,580	20,580	20,580	22,782	22,782	22,782	25,797	25,797	25,797
International Trade	9,323	9,323	9,323	11,354	11,354	11,354	12,014	12,014	12,014
Other	198	198	198	161	161	161	148	148	148
Non-tax Revenues	22,334	34,228	47,408	23,963	37,491	53,030	26,406	41,247	56,831
Capital Revenues	1,195	1,195	1,195	2,081	2,081	2,081	1,668	1,668	1,668
(b) Grants	3,713	3,713	3,713	2,954	2,954	2,954	2,925	2,925	2,925
II - TOTAL EXPENDITURES and NET LENDING	101,153	119,142	113,665	111,913	133,386	125,497	123,750	147,648	139,925
(a) Total Expenditures	100,739	112,610	106,506	111,786	126,120	118,376	123,487	139,596	131,792
Current Expenditures	85,472	97,343	91,239	95,226	109,560	101,816	106,005	122,114	114,310
Wages and Salaries	28,238	28,238	28,500	31,549	31,549	31,859	35,234	35,234	35,576
Defense	10,218	10,218	10,218	11,215	11,215	11,215	12,433	12,433	12,433
Interest Payments	22,903	35,095	20,352	26,849	41,605	24,198	31,146	47,201	28,592
(on) Domestic Liabilities	20,570	32,762	18,019	24,498	39,254	21,847	28,741	44,796	26,187
(on) Foreign Liabilities	2,333	2,333	2,333	2,351	2,351	2,351	2,405	2,405	2,405
Other	24,113	23,792	32,169	25,613	25,191	34,544	27,192	27,246	37,709
Capital Expenditure	15,267	15,267	15,267	16,560	16,560	16,560	17,482	17,482	17,482
(b) Net Lending	414	6,532	7,159	127	7,266	7,121	263	8,052	8,133
III - Overall Deficit / Surplus	-22,185	-28,280	-9,623	-25,429	-33,374	-9,946	-27,170	-36,227	-12,920

Public Borrowing

The following table 14 shows the total public debt from different sectors as follows:

Table 14

	1997/98	1998/99	1999/00	2000/01	2001/02	2002/03	Mar-04
Total Public Debt 1/	159,919	182,071	201,927	236,464	262,365	291,380	322,388
1. Government	136,745	147,155	164,392	194,810	221,224	252,185	284,196
Securities	84,654	77,684	77,689	133,545	165,907	208,592	228,363
Government Bonds	25,125	25,125	25,125	76,125	94,875	112,875	122,875
T-Bonds	7,000	13,000	13,000	13,000	13,000	13,000	13,000
T-Bills	38,000	25,558	25,393	29,334	47,007	55,318	64,310
Social Security	3,029	3,029	3,029	3,029	2,000	2,000	2,000
GASC Bonds	3,321	2,705	2,705	2,705	2,705	2,705	2,705
Eurobond Holdings 2/	--	--	--	--	2,511	4,612	5,104
Housing Bonds	144	143	142	139	136	132	128
Bank Capital Increases	0	0	0	0	0	4,000	4,000
Banks Recapitalization Bonds	7,082	7,098	7,203	8,047	9,406	12,610	12,893
Other	953	1,026	1,092	1,166	1,267	1,340	1,348
Government Borrowing from NIB	68,884	78,999	88,947	101,126	113,786	123,939	129,364
(-)Credit Balances with Banking Sector	16,793	9,528	2,244	39,861	58,469	80,346	73,531
2. Public Economic Authorities	23,174	34,916	37,535	41,654	41,141	39,195	38,192
Net Balances with Banking Sector	-11,393	-4,471	-3,940	-3,313	-5,983	-10,899	-14,211
Net Balances with NIB	34,567	39,387	41,475	44,967	47,124	50,094	52,403
Memorandum Items							
Public Debt / GDP (%)	56%	59%	59%	66%	69%	70%	70%
Government Claims / GDP (%)	48%	48%	48%	54%	58%	61%	62%

Source: Central Bank of Egypt

1. Including net claims on central and local governments, public service authorities and public economic authorities, Excludes NIB lending to Public Business Sector and Private Sector, and Nib net liabilities.

2. Stands for Eurobond holdings with domestic institutions.

III. Tax Structure: Institutions and the Reality

Background

The first tax law passed in Egypt was Law 14 of 1939, which imposed a variety of taxes according to revenue source. Under this law, three categories of taxes distinguished among income resulting from capital labor and a combination of both capital and labor. These were defined as follows:

Tax on Capital Returns: This was applied on income realized from stocks, bonds, treasury bills and interest on capital, etc.

Tax on Income from Labor: This was divided into two sub- categories: *the tax on salaries*, which applied to individuals working under the supervision of, and for the profit of, others; and the *tax on profit from non- commercial professions*, which applied to self- employed individuals.

Tax on Returns of Both Capital and Labor: These taxes, named the commercial and industrial profit tax or the corporate tax, applied to trading and industrial activities being carried out by sole proprietorships, partnerships and corporations.

There was no attempt to unify the tax system before the 1980s, although in 1949, Law 49 imposed additional taxes on a taxpayer's global income from various sources if it exceeded a certain limit. After that date, a number of substantive political changes took places which were to transform Egypt's economic and social life, culminating in the nationalization of the economy during the 1950s and delaying the implementation of a unified taxation system long after such systems were set up in Europe and North America. After all, in Egypt's nationalized economy, the vast majority of taxpayers were employees subject to the tax on salaries, while the corporate tax applied mainly to public sector establishments.

During the 1970s, Open Door Policy was launched by the government to attract local, Arab and foreign investment in Egypt, generating a series of major changes that would eventually transform Egypt's political and economic landscape. In response to the new conditions, a unified taxation system was required that would permit a more equitable distribution of tax burdens then would have been possible under the old system.

The new system was initiated with the promulgation of Law 157/1981, which distinguished between the tax treatment accorded to ***physical characters*** (individuals), as amended by Law 187/1993, and to ***moral characters*** (corporation).

Law 157/1981 contained three volumes:

Volume I: referred to taxes imposed on physical characters, and maintained the to taxes imposed on physical characters, and maintained the old system of imposing different tax rates according to revenue source, in addition to the on global revenue above.

Volume II: dealt with the corporate taxes.

Volume III: covered general conditions applicable to all categories of taxes.

In 1993, Law 187/1993 imposed a new, more integrated direct tax on the income of physical characters which replaced the provisions of volume I of Law 157/1981. Other laws imposed a wide-ranging series of new indirect taxes to finance the government's massive budget deficit. Unlike direct taxes, which are levied on the taxpayer's income, indirect taxes are collected on the taxpayer's expenditures, and constitute a highly efficient and low- cost way for governments to generate additional tax revenue. The new indirect taxes took two forms: the ***Stamp Duties Tax*** imposed by law 111/ 1980 and its amendments, and the ***General Sales Tax*** imposed by Law 11/ 1991 and its amendments.

Theoretical Framework

Taxes represent the portion of taxpayer's net income that is paid to the state. Because taxes are indispensable to the states which impose them, it is in the interest of these states to undertake the application of a group of concepts and postulates that help to achieve a visible balance between the state's and the taxpayer's interests. Together, these postulates and concepts from a theoretical framework upon which is based the taxation system.

This theoretical framework can be graphically represented as follows:

Theory of Taxation			
Concepts of Taxation			
Tax Shifting	**Tax Assessment**	**Tax Due Date**	**Tax Basis**
Postulates of Taxation			
Stability	**Productivity**		**Justice**
Principles of Taxation			
Equilibrium	**Universality**		**Legality**
Planning	**Clarity**		**Anti-Retroactivity**
Flexibility	**Economization**		**Equality**
Annually	**Timeliness**		**Territorially**

The Unified Tax

Definition: A System for imposing direct taxes on physical persons on their net income realized from different sources.

Nature of Unified Tax:

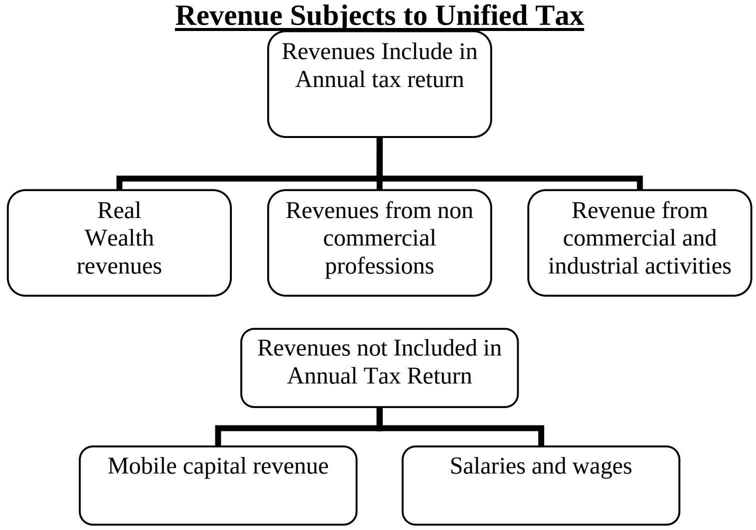
1- It affects only physical persons.
2- It is progressive, i.e. the greater revenue, the higher the taxes.
3- It has unified procedures. The tax imposed on various sources of income is paid upon filing a single (unified) tax return.
4- It is collected from both residents and nonresidents on their incomes realized in the territory of Egypt. Residents are defined as the following:

4-1 Those residing in Egypt for more than 183 continuous or interrupted days during the fiscal year;
4-2 Those for which Egypt is the principal place of residence;
4-3 Those whose business headquarters are located in Egypt;
4-4 Those working abroad and receiving income from the Egyptian state treasury

5- Except for mobile capital revenue and salaries taxes, it is calculated on an annual basis to conform to the principle of annuity.

6- It is in reality a quasi-unified tax, since procedures, rates and the tax due date are not absolutely unified.

Revenue Subjects to Unified Tax



A-Mobile Capital Revenue Tax:

1-Income realized from bonds & treasury bills

> **1-1Bonds**: Long loans issued to companies or the government which they undertake to refund at the maturity date, as well as returns which are due on that date.
>
> **1-2 Treasury Bills**: Short term loans issued by the government to finance the deficit in its budget.
>
> **1-3 Tax is applied on**: The returns on bonds and treasury bills and the settlement allowance, which represents the difference between the face value and the amounts which are actually paid.

2- Return on loans of all kinds which are contracted by the government, moral characters, companies or establishments in general.

Tax is applied on payments on the return of loans contracted by the aforementioned entities unless they are exempted by other laws, for example if they are loans contracted by the Social Insurance Organization, or if they are treasury bills.

Tax basis is the global amount which represents the returns realized from any kind of loan.

3- Amount obtained by physical persons residing normally in Egypt, realized from dividends, returns, settlements, amortization of capital, liquidation surpluses for their shares in foreign companies or in establishments which are not operating in Egypt, or in Egyptian companies operating abroad but not subject to corporate tax. Tax shall also be applied to payments obtained by the aforementioned physical persons in the form of refund settlements or as amortization of the founders' share where such receipts are obtained before dissolving or liquidating the company.

3-1 Tax applies social loyalty (Egyptians) and economic loyalty (resident foreigners)

3-2 Tax is applied on:-

- Profits and returns which are paid periodically as the returns of shares, whether these are paid in cash or in kind
- Settlement and amortization of capital which represent the refund of capital
- Liquidation surplus: Amounts paid by companies upon liquidation in addition to the face value per share. This surplus is considered to be an amount convertible to the settlement allowance of bonds.
- Foundation shares: are paid by companies for those presenting moral rights.

3-3 Tax is also applied on all amounts obtained by physical persons residing in Egypt (Egyptian and foreigners), which consist of returns and realized from their bonds and/or other foreign commercial papers.

In such cases, tax is determined upon the basis of total returns/ revenues earned after deduction of the foreign taxes which have already been paid.

4- Interest on any kind of debts, interest on deposits and monetary guarantee bonds, if such debts, deposits and bonds are claimed for physical persons normally residing in Egypt, even if such returns result from the investments abroad.

4-1 Taxable revenue includes: return on debts, returns on deposits and returns on guarantee bonds.

4-2 Social loyalty (Egyptians) and economic loyalty (resident foreigners) are applied in this tax:

- Physical persons residing in Egypt, both Egyptian and foreigners, are subject to the same tax whether the investment is made in Egypt or abroad, applying the concept of social loyalty;
- Foreign, non-resident physical persons are taxed on their returns realized from investments in Egypt, according to the concept of economic loyalty.

5- Attendance allowances paid to stockholders for their presence at general assemblies. Tax shall apply on all amounts obtained by stockholders to cover expenses incurred for their attendance at general assemblies, with no deductions taken into account

6- Salaries, wages, remunerations, cash and in kind benefits, attendance allowances, nature of work allowance and all other allowances of all types granted to members of boards of directors in joint stock companies, members in control boards in partnerships limited by shares and in limited liability companies which are subject to provisions of law 159/1981.

6-1 Companies subject to the provisions of Law159/1981:

- Joint stock companies: The boards of directors of all companies subject to the aforementioned law must not consist of fewer than three members in order to be considered a valid board of directors.
- Partnership with limited shares: Managers in these companies be partners. The control board must comprise three persons from among the stockholders.
- Limited liability companies: Managers and control board are subject to the same limitations as those prescribed in the aforementioned NO.2

However, all payments of any kind obtained by members of the board in those companies subject to provisions of companies' law 159 /1981 are subject to mobile capital revenue tax.

6-2 Companies subject to provisions of Law230/1989**:**

- Investment companies established under the domestic investment system or in free zones. Such companies are exempted from tax for a period of five years or more, depending on circumstances.
- Sums obtained by members of the board in these companies are treated as follows:

A) During the tax holiday:

A-1) Salaries, wages, benefits in cash and/or in kind obtained by members of the board are subject to mobile capital revenue tax.

A-2) Profit shares to be distributed are exempted from tax

B) After the tax holiday:

B-1) all sums, of any kind, obtained by members of the broad are subject to the mobile capital revenue tax.

6-3 Companies subject to the provisions of Law 203/1989:

Including holding and affiliated companies related to the public business sector.

6-3-1 Holding companies:

- Take the form of joint stock companies and are considered to be entities under private law. Boards of directors of holding companies are elected by their general assembly. The chairman and members of the board are not considered to be staff members in these companies.
- According to the aforementioned law, 5% of the distributable profit is to be paid as remuneration to the board of directors.
- Tax treatment of all payments to the chairman and members of the broad is as follows:

  a- If members of the board are non- stockholders, all payments obtained by the chairman and members of the board are subject to the tax on salaries according to Item 4 of Article 49 of Law 157/1981, as amended by Law 187/1993.

  b- If members of the board are stockholders , all payments obtained by the chairman and members of the board are subject to mobile capital revenue tax according to Items 8,9 and 10 of Article 6 of Law 187/1993.

6-3-2 affiliated companies: A form of joint- stock companies in which the holding company holds at least 51% of capital shares.

- Affiliated companies completely or jointly owned by a holding company or holding companies, public sector cities or banks. All payments obtained by the chairman and members of the board of such companies are subject to the tax on salaries according to provision of Item 4 of Article 49 of Law 157/1981 as amended by Law 187/1993.

- Affiliated companies with shares owned by individuals or private sector entities. All amounts paid to the chairman and members of the board who are not stockholders are subject to the salaries tax. Sums paid to stockholders, on the other hand, are subject to the mobile capital revenue tax.

7- Salaries, wages, remunerations, cash and in kind benefits, attendance, allowances and nature of work allowances obtained by chairman of boards of directors, managing directors, or by managers and directors in excess of amounts received by the other members of the board in return for their managerial work, provided such payments exceed five thousand Egyptian pounds per annum for each individual, are subject to provisions of Item 5 of Article 49 of the present law.

7-1 The board of directors may not convene daily to manage the company.

7-2 The board may authorize one or more individuals from among the members to act as managing director.

7-3 Payments obtained by the chairman and managing director are subject to the tax on salaries up to five thousand pounds per annum. For all amounts exceeding this limit, the mobile capital revenue tax is applicable.

8- Representation allowances received by chairmen, managing directors or directors in companies prescribed in item (6), in excess of three thousand pounds per annum for each of them.

Exemption from tax:

Exemptions from the mobile capital revenue tax according to Article 8 of Law 157/1981 as amended by law 187/1993are as follows:

1- Interest on credit accounts that are opened in implementation of payment agreements, conditionally and upon reciprocity treatment.

2- Interest on loans and credit facilities which the government, local government units, public and general organizations or public sector companies obtain from sources outside the Arab Republic of Egypt.

3- Interest due on free accounts opened in foreign currency or in Egyptian pounds, and accounts related to foreign currency.

4- Interest on bonds issued by joint stock companies affiliated to either the public or private sectors, up to but not exceeding the interest rates prescribed by the Central Bank of Egypt regarding deposit accounts for terms equal to bond terms, providing that these bonds are floated, for shares of the company issuing these shares must be registered with the stock exchange. The following conditions should be fulfilled in order for the tax exemptions to be applicable:

a) The company issuing the bonds must be an Egyptian joint stock company.
b) The tax exemption will apply to the interest rate prescribed by the Central Bank of Egypt.
c) The bonds should be issued for public participation.
d) Stocks of the company issuing the bonds must be listed in the stock exchange.

5- Interest from bonds issued by public sector banks and by banks registered with the Central Bank of Egypt in which the public sector's capital share is more than 50%, where these bonds have been issued for the purpose of financing projects on Egyptian territory.

- Exemption from tax is unlimited for bonds issued by public sector banks.
- For bonds issued by other banks, the following conditions should be fulfilled:

a) The public sector's capital share in these banks must exceed 50%.
b) The banks must be registered with the Central Bank of Egypt.
c) These bonds must have been issued for the purpose of financing projects in Egypt.

6- Interest on deposit and saving accounts with banks that are under the control of the Central Bank of Egypt, and postal saving funds.

7-Cash and in Kind benefits obtained by an insured person or savings account holder through lotteries carried out by insurance or saving companies.

Collection of tax:
A) Tax due date: the due date for the unified tax applicable to physical characters on mobile capital revenues is determined as follows:
1- Bond, treasury bills and Loans
2- Settlement bonds
3- Foreign mobile capital revenues
4-Returns from debts deposits and monetary guarantees
5- Income realized by a chairman and members of the board of directors.
B) Tax rate: The tax rate is 32% of the global income that is subjects to this tax, without any deductions for family burdens.
C) Collection of tax:

- Tax is to be borne by the creditor.
- Tax is to be withheld at source, to be handed over to the public treasury by the debtor.

Once the mobile capital revenue tax is handed over to the public treasury, the tax is considered to have been finally settled and the taxpayer must not declare this tax in his or her annual tax return.

B-Tax on salaries

***Background*:** Tax legislation in some countries is designed to exempt all kind of labor revenue from tax in order to avoid imposing an additional burden on those whose only source of income is their salary. This is because salaries are normally fairly fixed, and are thus particularly vulnerable to economic changes such as inflation.
Egyptian tax legislation initially adopted this policy in its earlier stages by exempting all revenues totaling less than one hundred fifty pounds per annum from any tax under Law 14/1939, which was particularly aimed at salaries individuals.
Later, as a result of widespread political and economic changes, the legislation was gradually modified to emphasize productivity in taxation; that is to say, to collect the greatest tax revenue by the most efficient means possible. From this perspective, salary taxes are particularly attractive to tax authorities since they are not only withheld at source, but because they are collected by a third party (the employer) and handed over to the tax authority, they are also virtually costless.
Nature of revenue:
1- Resulting from a contract awarded to an employee by his or her employer.
2- Earned for intellectual or manual work performed by the employee.
3- Earned periodically
Under Article 49 of Law187/1993, the salaries tax applied to:
1- Salaries and other like payments, remunerations, wages, bonuses and annuities (except insurance payments) paid by the government of Egypt local government units, public authorities and other public moral characters, and funds subject to Law 54/1975 and those subject to Law 64/1980 concerning substitute private social insurance systems to any person whether residing in Egypt or abroad.
2- Salaries and other like payments, remunerations, wages, bonuses and annuities (with the exception of pensions), paid by companies establishments, societies, private organizations, educational institutes and individuals to any person residing in Egypt, or to any person residing abroad for services rendered in Egypt.
***Tax Basis*:**
Includes all revenue obtained by the taxpayer, including salaries, wages, allowances, bonuses and cash or benefits in kind.

In calculating the tax basis, revenue for each part of the year is taken as a proportion of annual revenue according to the ratio of the period to the year (i.e. a monthly salary is calculated as 1/12 of the annual salary. Since the tax rate must be calculated using an annual tax basis, the monthly salary must first be multiplied by 12 to determine the annual tax rate, which is then divided by twelve and applied monthly).

Tax due date:

Varies according to the date salary payment is received by the employee from the employer.

Nature of work allowance: amount granted to employees as compensation for environmental hazard related to the nature of the work they must perform. In principle, a nature of work allowance is considered to be an integral part of the salary; accordingly, it is fully subject to taxation.

In order for the representation allowance to be exempt from tax, the following conditions must be fulfilled:

a) The establishment must have an organization chart including the following information:

- Job titles;
- Qualifications required;
- Stipulated salaries and allowances related to specified jobs;

b) Representation allowances must be pre- approved at rates similar to those obtained by equivalent categories in public sector companies;

c) Evidence must be provided that representation allowances paid are reasonable for the jobs with which they are linked.

Incentive bonuses

Payments made to employees by governmental institutions, public authorities, public sector units and private establishments in order to encourage improved productivity in terms of quantity and/or quality.

For these payments by management to be considered incentive bonuses and therefore not subject to tax, two conditions must be met:

a) There must be a pre-established system for bonus payments;

b) The system must include clearly defined standards by which to measure the performance in question;

c) Incentive bonuses are exempted from tax up to an amount not exceeding 3000 (three thousand) Egyptian pounds per annum or 100% of the annual salary, whichever is the lesser of the two. However, all allowances and bonuses to be exempted from salaries tax shall not exceed 4000 Egyptian pounds per annum.

Cash and/or in kind benefits related to housing

Some establishments grant their employees a housing allowance or arrange reasonable housing for their accommodation during the course of their employment. Such benefits are subject to tax if they are considered to be a personal benefit to the employee, but are exempt if they are considered mandatory for the performance of the job. (i.e. contracted work to be executed in remote areas). The salaries tax is not imposed on the following cash and/or in kind benefits related to housing paid to:

a) Foreign expatriates residing in Egypt no less than 183 continuous or interrupted days within the calendar year.

b) Those working in reconstruction, land reclamation and mining projects.

Other cash and in kind benefits:

All other benefits obtained by employees in connection with their contractual relation with their employer are distinguished according to whether they considered necessary to the proper accomplishment of the contracted work, or whether they are benefits primarily of a personal nature. Those include cash benefits and in kind benefits like meals, housing and goods.

Exemptions from Tax:

-Wages of casual labor: casual labors are defined as those whose wages are paid on a daily basis. In order to avoid imposing an intolerable burden on such individual, wages obtained in exchange for casual labor are exempted from tax on condition that they not are employed on a permanent basis and that they have no other source of income.
- Social Insurance Subscriptions: are to be subtracted from any income before such income is included calculations to determine the tax basis.
The employee shares of social insurance subscriptions are as follows:

- 14% of the Fixed Basic Salary
- 11% of the variable Salary

- Life and health insurance premiums: which benefit the taxpayer; the taxpayer's spouse and minor children are exempted from tax within the following limitations:
a) Amount to be exempted shall not exceed LE1000 (one thousand Egyptian pounds) per annum. Or
b) 15% of the net income, whichever is less.
- Annuities paid by insurance companies: are exempted from tax if the insurance policy has been effective for no less than 10 years.
- Efforts exerted for obtaining income: are evaluated at 10% of taxable income, to be exempted from tax in addition to a special allowance amounting to L.E. 2000 per annum. This exemption is to be taken into account after the deduction of social insurance contributions and insurance premiums which favor the taxpayer, spouse and minor children.
- Exemptions for family burden.

Collection of tax:
a) Declarations to be submitted by employers. Employers are required to submit the following to the inspectorate;

1- Names, home addresses and job titles of their employees; and
2- Their salaries, wages and other remuneration, within sixty days subsequent to their employment.

b) Declarations to be submitted by employees:

1- Employees are required to submit to the tax inspectorate a statement of all payments received by them including salaries and wages which exceed the exemption specified by the law.
2- Taxpayers are not to file any annual returns for income resulting from salaries.

C-Commercial and Industrial profit tax:

Definition: Trading, commercial, and industrial activities are those related to the exchange or circulation of goods, services and wealth from the procedure to the end user.
Nature of revenue subject to tax:
1- Resulting from the pursuit of a profession
This tax is imposed in principle on those engaged in for- profit activities for which they are considered to be professionally qualified, in addition to maintaining a locale for the conduct of their business activities, thus fulfilling the concept of "going concern".
In practice, some for- profit activities (for example the sale of a property) do not qualify as going concerns, nor do they require specific professional qualifications for the maintenance of regular activity. Although they do not result from the pursuit of a profession, under tax legislation such activities are subject to the commercial and industrial profit tax.
2- Independent:
In order to be considered independent, a taxpayer must be engaged in independent business activities whether in a sole proprietorship or within a partnership contracts are treated as distinct from employment contracts.

3- Intention to realize profit:
For the commercial and industrial profit tax to be applicable, the taxpayer must intend to realize a profit. Not-for- profit organizations such as social and sporting clubs, scientific offices, etc. are not subject to tax because they are not intended to realize a profit even if their activities result in surpluses on their financial statements.
4- Profit realized in Egypt:
Profits realized from sole proprietorships and partnerships active in Egypt are subject to tax (economic loyalty). Egyptian entities which realize profits as a consequence of activities performed abroad are subject to tax in Egypt if they are subsidiaries of companies based in Egypt *(social loyalty)*.

Determination of revenues comprising tax basis

According to Article 26, revenue which comprise the tax basis are to be determined with reference to the net profit realized in the preceding year or twelve- month period, the results of which are used to produce the last financial statements.
The provisions of Article 26 confirm with the principle of annuity, which matches the taxation year with the calendar year. Principle guiding Egyptian tax legislation is independence of taxation years, which treats each taxation year independently of other years. The following cases are considered exceptions to these principles:

- Dissolution of the establishment: taxable profit is to be accounted for up to the date of dissolution.
- Inception of activity: taxable profit is to be accounted for beginning on the date of inception until the end of the taxable year.
- Brokerage, commissions: the payer must withhold the tax at source.
- Losses realized: may be carried forward and discounted from the profit realized within the next five financial years.

1-Total Revenues:
Taxable profit is to be calculated as the return of the business transaction or operations after having deducted all related costs. In determining the net profit, the principle of accruals is applied, according to which credit sales during the period are considered revenue, even if they have not yet been collected. Similarly, in order to apply the accounting principles of matching revenues with expenses, expenses are included in the accounting period whether or not they have been settled. Revenues presented in the credit side of the income statement should include:

- Gross profit
- Sundry revenues

2- Compensations:
All payments obtained by the establishment from third parties to recover damages to its assets
There are two distinct kinds of compensation:
A- Compensations paid for losses resulting from delays in the execution of contracts or from failure to fulfill contractual obligations. These compensations are considered revenues in the accounting period during which their collection takes place, making them an exception to the use of the accrual principle.
B- Compensation paid to recover damage to assets. Such compensation payments are considered taxable revenue
3- Collected bad debts:
These collected bad debts must be included in the taxable revenues of the current year if the tax authority has accepted their previous write-off.
4- Commissions:
There are two distinct kinds of commissions:

- Commissions related to business must be included in the taxable revenues.

- Commissions not related to business are subject to tax the rate stipulated in Article 90 without any of the deductions specified in Article 18 to recover any costs.

5- Discount earned:
Is considered revenue resulting from the proper fulfillment of contracts previously concluded with vendors, and is included in the taxable revenue.

Deductible costs

A) Conditions for costs to be deductible

Costs are considered to be deductible if they fulfill the following conditions:

1- Costs are related to the taxable period

- Using the principle of accruals, deductible costs are burdens related to the particular year being subjected to tax assessment, without taking into consideration whether or not any settlement of these costs has taken place.
- Also, in conformity with the principle of independence of tax periods, costs are not deductible if they are related to any year other than the one currently being considered, the only exception being that losses may be carried forward for five consecutive years.

2- Costs and expenses are foreseeable:
Some costs or losses which are expected to occur in the coming year are considered deductible. For example, depreciation should be accounted for to balance any losses resulting from the probable decrease in the useful life of a plant's assets.

3- The Expense is necessary to realize profit:
Costs and expenses must be clearly related to the business' ability to realize a profit in order to be deductible. Accordingly, such personal expenses as a taxpayer's apartment rental cannot be deducted.

4- The expense is reasonable:
The deductible expense should fairly represent costs reasonably incurred by the establishment in order to realize profit.

B) Deductible costs according to the law:

Under the provisions of article 27, the following are deductible:

1. Rent
2. Depreciation
3. 25% of the cost of new machine
4. Taxes paid the establishment
5. Donation
6. Allowances
7. Reserve
8. Incentive bonuses
9. Social insurance contributions
10. Amounts withheld for special funds

There are other deductible costs like, Salaries, owner's salary, tips, commissions, bad debts, compensations & fines, interest expenses, traveling& transportation expenses, car expenses, insurance expenses, advertising and general expenses include all other costs incurred for the proper functioning of the business.

Exemption from tax:

According to article 36, the following shall be exempted from tax:

1. Profits of bee breeding projects, exemption of profits realized from this activity has not been restricted nor limited to any tax exemption period.
2. Profits of an establishment for the reclamation and cultivation of land such establishments shall be exempted from taxes for a period of ten years, effective from the first fiscal year after the date on which the land is considered productive.

3. Profits of poultry breeding projects, of folds for fattening and breeding livestock, of fisheries projects, and of fishing boats and trawlers owned by members of co- operative societies for commercial fishing shall be exempted from tax for a period of ten years beginning on the date such activities are initiated.
4. Profits of special insurance funds as set up according to the provisions of Law 54/1975, the "Law of Special Insurance Funds".
5. Profits of new projects established or to be established following the enforcement of the Social Fund for development, if these are financed wholly or partially from the fund, for a period of five consecutive years after the project is initiated.

According to the law, certain business establishments must undertake to deduct, add and collect taxes from taxpayers, and to hand these collected sums to the appropriate tax inspectorates. This system applied to individuals, partnerships and corporations that are subject to provisions of the law, but not to public sector establishments and other establishments that are exempted from tax.

1- Deduction on tax account

- Establishments must deduct a percentage of every amount exceeding ten pounds which is paid to them by private sector taxpayers who are subject to tax, whether as commission, brokerage fee, payment for delivered goods or as a fee for contracted services.
- The establishments subject to this law are, as prescribed by Items 1 and 2 of Article 37 0f Law 157/1981(amended by Law 187/1993),are those with capital exceeding twenty thousand Egyptian Pounds.
- The percentages to be deducted are as follows:

Activities	**Percentage**
1- Contacting & deliveries	1% of progress invoice & amounts paid
2- Purchasing	1% on invoice amount
3- Services	3% based on amounts paid

2- Deduction from export refund value on tax accounts:

In such cases, the establishments (i.e. banks) receiving the value of the exports refunded shall deduct a percentage of this value and hand it over to the appropriate tax inspectorates to cover tax accounts which may be due from the private sector export establishments.

3- Additional on tax account

Establishments which sell and distribute goods to private sector taxpayers, whether these are industrial or agricultural products, whether local or imported, for use in manufacturing or for re-sale, must add a percentage to the amounts they collect and hand it over to the appropriate tax inspectorates to cover tax accounts which may be due from the purchasers.

4- Addition on rentals on tax account

Establishments renting their real- estate property must collect an additional percentage on the property's rental value from the lessees, to be handed over to the appropriate tax inspectorates to cover tax accounts which may be due from the lessees.

5- Collection on tax account

Establishments collecting fees in return for services rendered to private sector taxpayers must collect an additional sum to cover their clients' tax account.

<u>D-Non commercial professions profit tax</u>

Revenues subject to tax

According to Article 66 of Law 157/1981 as amended by law 187/1993, tax shall be applied to net income realized from the free professions and other non- commercial professions practiced by the taxpayers independently, and in which the basic component of the net income is realized from exercising the profession or activity in Egypt. The tax shall also apply to the net income realized from practicing the profession abroad, if the head office of the taxpayer is located in Egypt.

Professions that are subject to tax:

1- Free professions & non-commercial professions:

Free and non-commercial professions are those which are practiced independently, and in which professional qualifications are the essential element; in some cases, capital may also be a factor jointly with the individual's qualifications to practice a particular profession, but the latter must predominate as an essential requirement for the activity to take place.

2- All professions or activities that are not mentioned in Article5

-conditions under which these revenues are subject to tax:

1- Independence. The taxpayer must be exercising the profession on his/ her behalf and under his/her own responsibility.

2- Going concern. The taxpayer must be exercising the profession continuously in order to generate profit from it. However, the "sole deal" or one-time transaction will not be exempt from the tax. Proper permits from the competent authorities must be obtained as prerequisite for the pursuit of any profession.

3- Professional qualifications as the basic element. Whether professional qualification is essential to carrying out the activity is considered the most important condition in determining whether the revenue is subject to this tax

4- Practicing in Egypt. Revenues which are realized from professions practiced in Egypt shall be subject to tax regardless of the taxpayer's citizenship (economic loyalty). Revenues realized abroad by Egyptian taxpayers whose headquarters are in Egypt shall also be subject to tax (social loyalty).

Determination of revenues that are subject to tax

Revenues

Revenues must be entered in annual tax basis the preceding year using the cash basis method to account for those revenues.

Deductible costs

1- Deductible costs according to law. Item 2 of Article 67 stipulates that the net income is determined after deducting all costs necessary for practicing the profession, i.e. registration fees, subscriptions in syndicates and professional societies, as well as direct taxes.

2- Other deductible costs.

- Conditions for costs to be deductible

a) They are related to the proper exercise of the profession, and include such items as:

- Rental of business office or location;
- Travel and transportation;
- Stationery, books, professional periodicals;
- Utilities and telecommunications equipment and services.

b) They are paid during the fiscal year, and are thus compatible with the cash basis method of calculating revenue and expenses.

C) They are fully supported by the appropriate documents.

3- Amounts deducted from net income. According to Article 68 of Law 157/1981 as amended by Law 187/1993, the amounts which may be deducted from net income shall be as follows:

- 15% for professional use.
- Payments to associations or syndicates to finance pension- related systems, providing that the deductions thus made shall not exceed 10% of the net income.
- Life and health insurance premiums benefiting the taxpayer, spouse and minor children, up to a ceiling of 15% of net income or one thousand pounds, whichever is less.

- Donations paid to the government and/or related agencies are deductible in full.

Other donations, not exceeding 7% of net income, may be deducted.

4- Deduction to offset retained losses. Taxpayers keeping proper books may carry losses sustained during one fiscal year to be offset by the net income realized during the next five consecutive years.

5- Interruption in practicing. Taxpayers, who inform the appropriate tax authority about an interruption in the practice of their profession within ninety consecutive days following the date of interruption, are permitted to submit a tax return for their net income realized until the date of interruption.

6- Determination of revenues realized by non- residents

a) Foreigners, article 70 provides the tax shall be applied at a flat of 20% without any deductions, on revenues realized by foreigners from the exercise of their profession in Egypt.

The tax must be withheld at source by the employer or contractor, and then handed over to the appropriate tax authority within fifteen consecutive days following the month during which payment was made.

b) Egyptians, non- resident must pay tax on revenues realized from the exercise of their professions in Egypt at the same rates and on the same basis as residents.

Exemption from taxes

Article 71 provides for the following to be exempt from tax:

1. Agricultural establishments, with specific exceptions;
2. Non-profit organizations, within the limits of their social, scientific or sporting activities ;
3. Educational institutes which belong to, or are supervised by, the state;
4. Free professionals who are registered members in professional syndicates in the field of their specialization, for a period of three years after the date they begin to exercise their free profession. They must settle the tax on the first month following the end of this three- year period. For those exercising their profession for the first time more than fifteen years after they have graduated, the tax- exempt period is reduced from three to one year. However, this tax exemption can only be applied if the taxpayer exercises his or her profession alone or with another party who meets the conditions for the exemption.
5. Writers and translators of books and religious, scientific, cultural and literary articles. Profits form these activities are exempt, but not profits realized from the sale of books or translations produced in audio or visual form
6. Profits of teaching staff members in universities, institutes and other academic institutions, earned from their books and literary works according to the system and price set up by those universities and institutes.
7. Plastic artists who are members of the artists' syndicates do not have to pay tax on profits they realize from their art-works in photography, sculpture and craving.

Deductions and collections on tax account

Those exercising their free profession must undertake to property keep the following books:

- Journal, all revenue and expenses must be recorded daily in a journal which must be registered and stamped by the competent tax authority.
- Receipts book, a book containing serial receipts in duplicate (original+ copy) must be obtained from the tax authorities by the professional, and a receipt from this book must be given to each client in return for payment. Both of the aforementioned books must be submitted to the competent tax authority upon demand.
- Deductions on tax account, contracting institutions must withhold a percentage of any payment exceeding ten pounds given to a free professional, and forward it to the appropriate tax authority four times each year, before the end of April, July, October and January.

The amount to be withheld is as follows:

10% of payments up to five hundred pounds;
15% of payments exceeding five hundred pounds

- Collection on tax account, as was mentioned above, a percentage of payments to free professionals is withheld and given periodically to the tax authorities. However, the amounts which are either withheld or collected on the free professional's tax account shall be deducted from taxes owed by the professional upon submission of his/her annual tax return.

E-Tax on real wealth revenue

1. Revenue of agricultural lands:

The legislation provides two methods to determine revenues of agricultural lands:

a) Estimation methods: Item 1 of Article 82 stipulates that the revenues of agricultural lands are to be evaluated based on their rental value, which is in turn based upon the property tax accounting to provisions of Law113/1939, after deducting 20% to cover all costs.

The rental value may be determined as follows:

Property Tax × 100/tax rate

Property tax is currently at the rate of 14% of the rental value.

Example: if the property tax for a piece of land is LE 210
Annual rental value= 210× 100/ 14= LE 1500
Revenue to be determined as tax basis=
1500-(20%×1500) =LE 1200

b) Actual revenues and costs method: article 84 permits agricultural land revenues to be determined on the actual revenues and costs method under the following conditions:

1. The taxpayer must apply for actual method tax assessment;
2. The application must include all agricultural lands owned by the taxpayer;
3. The application must be presented at the time the annual the tax return;
4. The taxpayer must keep proper accounting books.

Under the actual costs and revenues method, net income is calculated as follows:

a) If the agricultural land is rented to another party. Actual revenue is assessed as the rental value which is agreed upon between the lessees as described in the lease contract. Any actual costs are deducted from revenues to obtain the net income upon which the tax is based.

b) If the agricultural land is cultivated by the landlord. Revenues are determined as the value of crop sales within the taxable year and any other revenues which may be realized from any side business related to the land, as well as income obtained from selling the agricultural land itself(capital gains). Costs include all expenses incurred to obtain materials required for cultivation, including such items as fertilizers, chemicals and depreciation of agricultural equipment.

2- Revenues of productive fruit gardens:

- Tax is applied on revenues from productive fruit gardens only if the cultivable area exceeds three feddans.
- For ornamental, medicinal and aromatic plants, tax is applied only if the cultivable area exceeds one feddans.
- For horticultural nurseries not established for the owners' personal use, the tax is applied regardless of the cultivable area.

Determination of revenues included in the tax basis

Item 2 of Article 82 provides us with two methods by which to determine which revenues are included in the tax basis:

1. Estimated tax assessment:
   With the exception of cultivable areas that are exempted from any tax, revenues are to be determined as follows:

- Where the land is based. Revenues are evaluated as the equivalent of the rental value which is taken as a basis for assessing the tax by virtue of Law113/1939 concerning the tax on agricultural land.
- Where the land owned. Revenues are evaluated as twice the rental value to cover all costs.

2. Actual costs and revenues method:

With the exception of areas that are exempted from any tax, taxable revenue is evaluated as the actual revenues less the actual expenses, as described above.

- The lessee and/or the owner of the agricultural land is responsible for determining taxable revenues, and is therefore considered to be taxable person. The taxpayer, together with spouse and minor children, are considered one owner.
- Desert agricultural lands are exempted from taxes for a period of ten years effective from the date the land is considered productive.

3-Revenues of built- realties

Determination of revenues that are subject to taxation,

- Estimated method: Article 83 provides that revenues of built realties shall be determined based on their value as it is used in assessing the tax on built realties, in conformity with law 56/1954. The taxpayer may deduct 20% to cover all costs, and also, if the taxpayer and his or her family reside in building, the rental value of their lodging may be deducted. The estimated tax basis is calculated using the following formulae:
  A- Rental Value= Property tax × 100 / tax rate
  B- Taxable Revenue= Rental Value × 80%
- Actual revenues and expenses method:
  Article 84 provides for the determination of revenues from built realties on the actual basis and under the same conditions described above in relation to agricultural lands. Accordingly, net income is determined as the difference between actual revenues and expenses.

Revenues: being the rents due under the leasing contract for a calendar year, **Expenses**: being all costs related to the proper administration of the real estate, including maintenance and depreciation.

Tax Exemption for family burdens:

Article 88 provides the following annual exemptions:

1- LE 2000 - for singles
2- LE 2500 - for married individuals without dependents
3- LE 3000 - for married individuals with one or more dependents
4- A taxpayer's parents are considered dependents for taxation purposes, according to the law.
5- Family burdens are deducted from the taxpayer's net annual income regardless of its size.
6- Article 89 stipulates that the tax exemption for family burdens shall not apply to revenues from activities that are subject to a fixed tax, such as commissions, brokerage fees, disposal of lands or other real estate, etc.

Tax rates

Article 90 provides for calculating the unified tax on annual revenues, after the family burdens have been deducted, at the following rates:

Income from	To	Rate
--	LE 2500	20%
LE 2500	LE 7000	27%
LE 7000	LE 16000	35%
More than LE 16000		40%

Tax Return

-***Definition:*** A tax return is a declaration that must be submitted by the taxpayer at the end of each fiscal year to the appropriate tax inspectorate, stating the taxpayer's revenues and expenses as well as his or her net profit or net loss during the preceding year from commercial and industrial activity, non- commercial professional activity or real- estate wealth revenue. so, the Egyptian tax system is a self-assessment

Those obliged to file a tax return any taxpayer who obtains revenues from commercial activities, the pursuit of a non-commercial profession, or from real estate wealth as one of the following:

- Owner in a sole proprietorship;
- Partner or silent partner.

Date of filing tax return, Item 2 of Article 91 stipulates that the taxpayer must file a tax return, on the form specified by law, with appropriate tax inspectorate by 31 March.

Upon filing the tax return, the taxpayer must pay all taxes that are due according to filled tax form.

Corporate Profits Tax:

The second volume of the income tax law deals with the tax treatment of corporations, due to the different characteristics of the corporate business form to other forms of unincorporated businesses. Art 111A of the Income Tax Law defines the various forms of business that are liable to corporate profits tax. These businesses are:

- Joint-stock companies, limited liability companies and limited partnerships;
- Public sector banks and public sector corporations;
- Foreign banks, offshore banks, foreign corporations and their subsidiaries; and
- Public economic authorities and other juridical persons that are involved in profitable activities with the exception on national services agency belonging to the Egyptian Ministry of Defense.

Taxable income:

The accounting profit, after adjustments for differences between accounting principles and tax provisions, is the basis for determining the taxable income. The taxable income is calculated on an annual basis.

The taxable income includes ordinary profits, which arise from ordinary business transactions, and in addition, it includes capital gains as the Egyptian tax system does not have a separate provision for the taxation of capital gains

Deductions:

Expenses incurred during the relevant accounting period may deduct, and in general, an accrual basis is used to determine if the expenses have been incurred. Article 114 of the income tax law specifically mentions a number of deductible expenses including the following items:

- Rent paid for business premises. Where the premises are owned by the taxpayer, an amount equal to the rent that would be paid by a similar business for such premises may be deducted;
- Depreciation of fixed assets that has been computed in accordance with the business accounting system;
- An accelerated depreciation of 25% of the cost of new machinery;
- Taxes, except for the corporate profits tax, paid;
- Interest paid to bondholders or other creditors;
- Donations made to government up to the actual amount donated, and donations made to registered charities up to7% of the net taxable income;
- Allowance up to 5% of net profit. Banks may claim an allowance for bad debts of up to 10% of their net profits, while insurance companies may claim a deduction for allowances that have been made in accordance to the requirements of the insurance law;

- Incentives and bonuses, social insurance contributions, salaries and wages, tips, commission, compensations and fines, insurance expense, advertising, etc.;
- Attendance allowance paid to shareholders; and
- Allowances, salaries and other in- kind payments made to broad members.

Exemptions and relief

There are number of incentives, etc. available to corporations in Egypt, which will be discussed in detail later. Some of the exemptions and relief available include:

- A 5 year tax exemption for new established Industrial corporations which employ at lest 50 workers and have proper and accurate accounts;
- A 5 to 20 year tax holiday, depending on the location of the corporation's headquarter, for corporations established according to the investment laws
- An allowance for corporate equity, whereby corporations listed on the Egyptian Stock Market are provided with a tax relief for paid- up capital

The exemptions and relief granted under the Egyptian tax system works to reduce the effective tax rate to about 25%.

Corporate tax rates

The general tax rate is 40% while a special tax rate of 32% is applied to industrial companies and on profits derived from exports transactions. Oil exploitation and production companies are subject to a tax rate of 40.55%. There is a development duty rate of 2% which is imposed on annual taxable profits that exceed of EGP 18.000.

Tax filing

Companies are required to file their annual tax return to file their annual tax return together with all supporting schedules and original financial statements within thirty days of the approval of the company's financial statements by the general assembly of stockholders. It is a legal requirement that the general assembly be held within 3 months of the end of financial period. Offshore banks and subsidiaries of foreign companies must file their annual tax return within3 months of the end of their financial period.

Failure to comply with the tax filing requirements could result in a tax penalty up to 20% of the tax payable.

Indirect Taxes:

There are three types of indirect taxes levied n Egypt. These are the general sales tax, stamp duties and customs duties.

A. General Sales Tax (GST)

GST was first introduced, as a replacement to consumption tax, in 1991 by Law No.11 of 1991. GST played an important role in increasing tax revenue and consequently the budget deficit has declined considerably.

Manufacturing goods, importers and services providers with annual turnover of Egypt LE 54000 or more, are subject to the sales tax, While wholesalers and retailers with an annual turnover of LE. 150000or more, are required to collect GST from their customers and remit such amounts to the sales tax department. Goods and services exported are subject to a zero rate.

Exemptions:

The following are exempted from the GST application:

- Products that fulfill a social purpose, (e.g. food and medicine, are exempt ;)
- All taxable commodities, equipment and services that are necessary for defense, national security, and the manufacture of armaments, as well as related raw material, production prerequisites and components thereof are exempt;
- Goods purchased or imported by foreign embassies and consulates in Egypt;

- Gifts, donations and presents made to the state administration or municipalities, and expressly exempted by the minister of finance; and
- Scientific, educational and cultural products imported for use by scientific research institutions and expressly exempted by the minister of finance.

Tax Rate:

The standard GST rate levied on taxable goods is 10%.

Tax Filing:

GST registered taxpayer is obliged to file a monthly sales tax return that must be based on the regular accounting books and records. Failure to do so could result in a weekly penalty of .05% of the tax due.

GST is based on a self- assessment system, and the sales tax department has the right to amend or ignore the GST return, and estimate the taxpayer's tax liability based on available information. In such instances, the burden of proof rests on the Sales Tax Department. The Sales Tax Department has the right to conduct tax audits which are usually based on the invoice system.

B. Customs duty

Customs tax is paid on imported goods as determined by the customs tariff. The rates have a wide range from 1per/cent to 55 per/cent except for vehicles where the rate may go up to 100 per/cent and 135 per/cent. The current law is Law No.66 of 1963, as amended. Imported machines and equipment by joint stock companies, limited partnerships and limited liability companies have reduced rates of 5% of value. Other legal forms of business do not have this privilege. Exporters are eligible to tax relief on imports under either of the duty drawback, temporary admission a tax rebate systems.

C. Stamp duty

Stamp duties is levied pursuant to Law No. 11 of 1980, and in general including the formation of companies, banking transactions, the execution of documents, transfers of shares and debentures, leases, insurance premiums and other transactions and instruments.

Examples of the stamp duty include: LE600 to LE 1800 on the formation of companies, LE 50 for registration of a company in the commercial register, and LE0.40 on bank checks and vouchers issued by a company carrying a signature.

Investment Tax Incentives in Egypt

It is widely acknowledge that Egypt’s stabilization program has been highly successful. Stabilization, albeit necessary, is not sufficient to accelerate growth. Egypt needs to foster greater investment (including foreign direct investment) to achieve the envisaged high-growth scenario. While the tax burden is only a part of the investment climate, it plays a crucial role in determining investment decisions. Moreover, the recent trends of increased globalization place new and greater demands on the national tax regimes to secure a country’s tax competitiveness. The Egyptian tax system still undermines the efficiency and growth consideration of a good tax system. Due to high and numerous tax rates applied to a narrow base, as well as tax holidays of different duration granted to certain activities and not to others, the tax structure can be accountable for: deterring the level of investment, creating serious distortions, and leading to large erosion in government revenues. If corporate taxation is to be reformed for growth and competitiveness, the reform agenda should include lowering corporate tax rate uniformly, along with other tax base and tax law provision changes. In parallel, the upgrading of Egypt tax incentive policy in terms of efficiency and effectiveness is also a must.

Investment tax incentives are import techniques for encouraging investment particularly in developing countries. Egypt has paid more attention to attract foreign direct investment (FDI), as well as encouraging domestic investments.

In1974 law NO 43 of 1974 was introduced (investment law for Arab and foreign capital), in 1989 another investment law was introduced (Law NO 230 of 1989) which super ceded previous law. In 1997 another investment law was introduced, it is law NO 8 of 1997(law of investment guarantees and incentives), it is current investment law.

Egyptian Government has being used tax incentives as the main instrument to courage investment. Investment tax incentives stipulated in previous investment laws, and current laws are classified into three categories; income tax incentives customs incentives, and other tax incentives, such as exemption from stamp duties for investment businesses contracts. Among those incentives, income tax incentives are the most important one. In this section we will discuss investment tax incentives that are related to income tax particularly corporate profit tax. There are number of reasons for limiting our study corporate tax incentives.

1- Most investments either domestic investments or foreign investments have a corporate legal form.

2- Corporate business has an important role in economic development of any country. It is known that corporate possess capital assets, human resources, financial ability and other abilities which enable them to create value added to the community where they are exercising their businesses.

3- Corporate income tax represents a huge burden to corporation companies in all countries around the world. As it seems that corporations will bear its tax burden directly regardless to the possibility of sifting its burden to other one

Multinational corporations always are looking for those countries who grant generous tax treatment.

Therefore we limit our discussion of investment tax incentives to those tax incentives that granted to corporations. Three points will be discussed as follows;

1- Corporate investment tax incentives policy and various forms of tax incentives.
2- Corporate investment tax incentives in Egypt
3- Evaluation of corporate investment tax incentives in Egypt.

Investment tax incentives policy for corporate business and various forms

Tax incentives play a significant role to encourage investments. Many countries either developed or developing countries implement tax incentives policy to attract and increase investments, regardless whether those investments are domestic investments or foreign investments.

Definition of tax incentives

Tax incentives is defined as “those provisions in the tax code or other codes, that offer preferential tax treatment to some activities over others (say manufacturing versus non-manufacturing industries), some organizational forms of business over others (incorporated versus unincorporated), and so on (OECD-Tax policy study, 2001).

Tax incentives imply a reduction in either the tax rate or the tax liability. Tax holiday for example are a reduction in the tax rate for business cycle life, accelerated or depreciation or immediate write off investment expenditure is a reduction in the tax base, and investment tax credit is the reduction in the tax bill.

It is obvious that are a number of tax incentives’ methods which can be provided to a corporation and other legal business forms.

2-1-2 Different Type of tax Incentives

1. Tax Holidays

A tax holidays is a simple and an effective form of tax incentives. Under a tax holiday qualifying newly established firms are not required to pay corporate income tax for specific period of time, with the goal of encourage investment. In order to implement this policy successfully certain rules must be stipulated, for example; definition of newly established firms, qualifying activities/ sectors and the starting point of the tax holiday

A tax holiday may be targeted a new firms in a specific region or industry sector.

Targeted sectors of tax holidays may address a perceived knowledge gap in the host countries and draw in skills and knowledge transfer to domestic workers in key area in the case of foreign direct investment.

Tax holidays are most attractive to firms in sectors where profits are generated in early years of operations (for example firms in trade, short term constructions, and services sectors and so on).

2. Statutory Corporate tax rate reduction.

The rate reduction may be broad-based, applicable to all domestic and foreign source income from specific activities, or from specific sources, or income earned by non- resident investors alone, or some combinations of these. When the reduced rate applies only to profits from a targeted activity, then careful legislative drafting regulations and administration are required to clarify eligibility and limit tax avoidance and revenue leakage. The rate reduction may be introduced as either temporary or permanent measure, or generally more to foreign investors the longer the period that they can benefit from it.

3. Special Investment allowance.

Under an investment allowance, firms are provided with faster or more generous write offs for qualifying capital costs. There two types of investment allowance that can be distinguished;

a) Accelerated depreciation, firms are allowed to write-off capital costs over a shorter time than dictated by capital useful economic life which generally corresponds to the accounting basis for depreciating capital costs.

b) Enhanced deduction, firms are allowed to claim total deductions for the costs of qualifying capital to exceed the (market price) which it is acquired. Depending on the rate at which these (enhanced costs) can be depreciated. This system carries the risk as it may generate a stream of tax deductions that exceed in present value the corresponding acquisition costs.

4- Investment Tax credit

Tax credits provide an offset against taxes otherwise payable, rather than a deduction against the tax base (thereby removing the dependency of the value of a tax credit claim on the income tax rate). Investment tax credit has two forms;

a) A flat investment tax credit, it is earned as a fixed percentage of investment expenditure incurred in a year on qualifying (targeting) capital

b) An incremental investment tax credit is earned as a fixed percentage of qualifying investment expenditure in a year in excess of base which is typically moving average base (for example the average investment expenditure by the taxpayer over the previous three years). Incremental tax credits should have the most simulative impact when targeted at short-lived assets, rather than long-lived assets of the same productivity. This Follow from the fact that the present value of the stream of tax payments on revenues from short-lived assets is smaller than in the case of longer-lived asset.

Therefore an investment tax credit at a flat, fixed rate offsets a larger percentage of the tax revenues imposed on the stream of earnings from a short-lived asset.

5. Financing Incentives.

Financing incentives, which operate to lower the required rate of return that a firm must offer on its shares, it may also be used to encourage investment. There are three broad classes of financing incentives delivered through tax system, with each intended to lower a firm’s cost of capital.

a) Up-front tax incentives (tax deduction or credits) which provide shareholders with income tax relief on the cost of their equity investment in targeted activities.

b) Down-stream tax incentives (tax deduction or credits) which provides shareholders with income tax relief in relief in respect of the return (dividends or capital gains) from their investment in targeted activities.

c) Flow- through tax credits earned on qualifying expenditure investors, to be used to offset shareholders-level rather than business-level taxation.

2-2 Tax incentives Policy for investment in Egypt towards Corporate Businesses

Egyptian tax system provides two kinds of investment tax incentives to corporate business; the first kind is stipulated in the income tax low. These incentives are general business all corporations which conduct business in Egypt have the right to enjoy these incentives. The second kind is stipulated in an investment law and these incentives are designated to corporations, which established under the umbrella of investment law.

2-2-1 corporate investment tax incentives stipulated in income tax law.

It is mentioned in the first section of this study, the second volume of income tax law is assigned for tax treatment for corporate business. Article NO 120 of aforementioned law laid down many tax incentives and other tax relief for corporations.

These incentives are classified into two types, first type is tax holidays and the second type is other incentives.

1. Tax holidays.

Income tax law distinguishes between a limited period tax holiday and an unlimited tax holiday period

a) A Limited period tax holiday

Specific types of corporations will enjoy a tax holiday for a limited period of time

These businesses are:

1) An industrial company, who has hired at least 50 workers. It will be following year of commencing production. If it kept proper accounting books, so that tax holiday is given for one year and then it will renew annually up to the provided a tax holiday for a limited period up to five years. Starting from the 5^{th} year

2) A Reclamation and cultivation of Land Company is exempted from corporate tax for 10 consecutive years, starting from the following year of commencing production, in accordance with ministerial decree issued by minister of finance with cooperation of minister of agriculture.

3) A Poultry Breeding Company is exempted from corporate tax for 10 consecutive years, starting from the following year of commencing of production

b) Unlimited Tax Holidays.

There is only one type of business activity which granted unlimited tax holiday period, this business activity is bee breeding companies, which are exempted from a corporate profit tax unlimited period.

c) Other Incentives

Article No 120 of income tax law has included number of tax relief’s, which constitute favorable tax treatment given to corporations. The aim of this favorable tax treatment is to mitigate corporate tax burden, in order to encourage investment in a corporate legal form rather than unincorporated legal form. Therefore this tax treatment is one kind of tax incentives which are listed below.

1) A joint stock company listed in the Egyptian stock Exchange is entitled to claim an annual paid-up equity capital (allowance for equity capital) deduction equal to the product of its paid-

in capital and the interest rate payable on government treasury bills. This deduction is lowering statuary tax rate, which imply listed corporations will subject to low marginal tax rate.

2) 90% of interest income driven from publicly- subscribe bond issue and bank deposits interest are excluded from taxable income of corporations.

3) Profits driven from incorporation of new corporations (subsidiaries) are excluded from taxable income of parent company if the subsidiary is liable to corporate profit tax in Egypt.

2-2-2 corporate investment tax incentives stipulated by investment law.

Egypt started implementation of investment tax incentives policy 1971. In1971 investment law No 65 of 1971 was introduced, but unfortunately that law couldn't achieve the expected objectives, so that a new investment law was introduced in 1974

Law No 43 of 1974 which considered the corn-stone of Egypt's open door policy

It was called the Law of Foreign and Arab Capital Investments and Free Zones. It gave many incentives and guarantees to Foreign and Arab investors. Many corporations had established under the umbrella of that law, and it achieved significant results to Egyptian economy. As result of socio- economic changes that Egypt had faced during late 1980s, a new investment law was introduced in 1989; it was law No 230 of 1989.

Aforementioned law was called investment law. According to investment law, investment incentives were extended to cover many new business activities. Also in ord eliminate contradicted issues with corporations law No 159 of 1981, at the same time many new provisions had been added. However that law was incapable to fit with the changes in investment environment which occurred in Egypt a few years later. Therefore another investment law was introduced in 1997.

In 1997 a comprehensive investment law was introduced. It is law No 8 of 1997(Law of Investment Guarantees and Incentives). The tax incentives stipulated by other laws except income tax law had been abolished. Therefore any business activity would like to enjoy investment tax incentives; it has to be established under the umbrella of Law No8 of 1997. The General Authority for investment is in charge of enforcement of this law. This Business activity will enjoy investment incentives and guarantees according to its type and location. The General Authority for Investment is in charge enforcement of this law.

The provisions of this law shall apply to all companies and installations, whatever the legal system they are subject to, to be established following the date of its enforcement, in order to exercise their activity in any of the following fields:

-Reclamation and cultivation of barren and desert lands or either of them

-Animal, poultry and Fish Production.

-Industrial and Mining.

-Hotel, Motels, Boarding Houses, Tourist Villages, Tourist Travel and transport.

-Transport of Goods in Cooling Vans, Cold Stores for Preservation of agricultural Product, Industrial Product, Food stuffs, Containers Stations, Grain Silos.

-Aviation transportation and the services directly connected therewith.

-Overseas Maritime Transport.

-Oil services for digging and exploration operations

-Housing projects, the units of which are leased wholly empty for non-administrative housing purposes.

-The Infrastructure comprising drinking water, drainage water, electricity, roads and communications.

-Hospitals and medical Treatment Centers which offer10% of their capacity free of charge.

-Financial leasing.

--Guaranteeing subscription to securities.

-Risk Capital.

-Production of computer software and systems

-Projects funded by the Social Fund for development.

To enjoy the investment Guarantees and incentives including fiscal exemptions by companies and establishments of multiple purposes and activities shall be restricted to their activities concerning the fields determined in the previous article and other fields.

Conclusion

In conclusion, the corporate tax and incentive policy in Egypt is not a good tax structure to maintain for the coming century. Its failure in terms of efficiency and growth are, simply, too severe not to correct. According to theory, a good tax system should balance the conflicting objectives of revenue, equity, efficiency, and growth, together with simplicity.

IV. Egypt -Specific Fiscal Issues

A. Privatization Program

Early privatization efforts, involving Initial Public Offerings (IPOs) of successful companies, generated very encouraging results, the benchmark against which the ongoing program is measured today. A balanced perspective, however, offers evidence in support of a more gradual pace given dramatic change in economic and market conditions.

Egypt's strategy of gradual reform was designed to ensure political acceptability, social protection for consumers and workers, and limited economic risk for investors, financial institutions and the economy as a whole. Because the privatization program has been conducted over several years, the logic of its implementation has some times been difficult to see. The program's goal is to bring the private sector to the forefront of the Egyptian economy through macroeconomic structural adjustment and the creation of a capital market that will allow the private sector to participate effectively in productive investments.

Contrary to some perceptions, privatization is not punishment for bad management or inefficiency. The real challenge it sets is not the sale of a given enterprise or a few shares. Rather, privatization is a means of increasing efficiency and exploiting the economy's potential correctly. Privatizing means seizing unique opportunity to refocus the role of government and public administration, increase economic efficiency, and adapt an enterprise, a sector, or the economy as a whole to the rapidly changing requirements of the global economy.

This is why the Egyptian Privatization scheme has been adherent, since its inception in 1991, to rational well-studied steps. Strengthening the state's managerial and administrative capacities has been a prime concern. Of course, such an approach cannot be expected to deliver immediately tangible gains. When one has chosen quality over quantity as the criterion of success, the reasonable short-term course of action entails moving gradually, in cooperation with the international community, to produce effective outcomes that can set an inspiring example.

The privatization program in Egypt is twofold. The first, and most dynamic, of its element involve divestment of public-sector holding in production and manufacturing. The second consists of encouraging private-sector investment in sectors traditionally controlled and operated by the public sector- e.g., electricity, roads, airports, maritime ports, and oil and gas transmission.

Methods of privatization

The government has researched and applied a number of privatization methods. Each time Pros and cons led a case-by case approach based on the requisites and timing of each individual transaction.

1. Initial Public Offering (IPO): The transfer of ownership and control of state-owned enterprises to the private sector through partial or full public share flotation on domestic or foreign stock exchanges in the form of Global Depository Receipts (GDRs). The government favored this method in the early phases of the program. Initial Public

Offerings have proved less costly, swifter and less complicated than other methods. As it has had a direct positive effect on the revival of the capital market, this method was the government's choice.

2. Anchor Investor: Direct sale of a controlling interest to a domestic and/or foreign strategic investor. Sale to an anchor investor allows the transfer of new technology, and halts the accumulation of unproductive debt and inventory. This method, however, has relieved pressure on the government to address outstanding debt.
3. Employee Shareholder Association (ESA): Direct sale of a controlling interest to employee, leading to improved labor management, productivity and profitability. This method can be criticized for its indirect effect on the problem of surplus labor. On the other hand, having employees as shareholders affects productivity positively.
4. Liquidation: Liquidation of non- profitable companies that have no potential for reform or restructuring. This method has the advantage of halting continued operating losses and debt accumulation.
5. Management Agreement Contracts: Project finance contracts (Build, Own, Operate and Transfer) have been introduced as an alternative method, which encourages private-sector participation in constructing and renovating large- scale infrastructure projects.

Table 15 Sale value of companies sold per HC (2002) (LE millions)

No.	Holding Company(HC)	Sale value	Sale Percent (%)
1	Spinning Weaving	588	3.5
2	Trade	1,265	7.5
3	Engineering Industries	959	5.4
4	Metallurgical and mining Industries	6,737	40
5	Chemical Industries	2,059	12.2
6	Pharmaceutical	233	1.4
7	Food Industries	2,172	12.8
8	Construction	1,195	7.1
9	Housing, Tourism and Cinema	1,396	8.3
10	Land and Maritime Transport	301	1.8
	Total	16,905	100

Source: ministry of Public Enterprise

B. Trade

The Egyptian government has elaborated a new strategy to eliminate the obstacles exporters face and to maintain a competitive edge in global market.

The Ministry of Foreign Trade has drawn up a comprehensive list of barriers and hindrances. In this way, a strategy and schedule for their resolution may be worked out. This will pave the way for entry into new markets, while increasing Egypt's share of fields where its exports already enjoy a strong presence.

***Trade finance*:** The Egyptian government has been working to develop and strengthen export finance instruments. The main institutions involved include the Egyptian Export Development Bank, the Egyptian Company for Export Development and Export Guarantee, commercial banks and insurance companies.

Of these, however, the Egyptian Export Development Bank is the only bank whose charter explicitly defines it as specialized in facilitating trade-related finance.

A major concern of new the Export Promotion Law (155/2002) is to promote trade finance through the Export Promotion Fund by helping priority sectors boost Egyptian exports to targeted international markets.

Potential partners can also conduct transactions with Egypt through a variety of branches and representatives of foreign banks here.

V. Conclusion: Where We Stand and Where We Go?

During the past decade, Egypt has implemented an economic and structural reform adjustment program. An important goal of the reform was to shift the economy towards a market-oriented economy policy. This required dramatic legislative changes to enable the economy to meet challenges of the new global economy in which Egypt has become an active participant. The needed legislative changes were implemented gradually in order to preserve the stability of the market and the economy as a whole.

The government launched an Economic Reform and Structural Adjustment Program (ERSAP) supported by Standby Arrangement with the International Monetary Fund and a Structural Adjustment Loan from the World Bank, in addition to bilateral debt forgiveness/ debt service relief from the Paris Club. This comprehensive program, designed to achieve macroeconomic stability in the wake of partial reforms implemented in the early 1980s and debt rescheduling in 1987, included: financial sector reform, interest rate liberalization, reductions in subsidies, and price controls, exchange rate standardization, foreign trade liberalization, and public sector reform. The overarching goal was to create an open, market-oriented, decentralized economy receptive to foreign direct investment and private- sector participation.

Egypt is rapidly shifting towards a market- based economy, a transition that demands implementation of a consistent economic policy. Hence, real economic growth takes place in an enabling environment, while macro- microeconomic institutions are rehabilitated.

The reform program was designed to be carried out in three main phases. The first focused on stabilizing the economy, improving public finance and exchange rate policies, stabilizing inflation, tightening monetary policy, and deregulating prices, markets and investment.

The main targets of the second phase were trade and investment issues, private sector reform, and banking sector restructuring. These reforms were implemented directly, through policy changes, and indirectly, through educational and other measure to improve economic and social welfare. Deregulation of prices, markets and investments was carried out successfully. As the government came to realize the crucial role the private sector would play, it then began to exert increasing efforts to fostering and channeling such participation.

Reform policies are based on four interdependent pillars that must be consolidated in tandem to realize the nation's huge potential: investment, saving, institutional reform and export promotion. Egypt has completed the third phase of the economic reform program, which has been commended by the IMF" as an achievement that has few parallels".

The gradual price liberalization strategy has paid off, and currently, prices of all products are market-based. Railway fares, electricity, petroleum products and natural gas prices are adjusted continually in line with their international equivalent. Continued economic progress, therefore, is based principally on Egypt's large, diversified economy, expanding international opportunities, modest external debt levels, fulfillment of debt service requirements, political stability, sustainable GDP growth, and the potential for further economic growth as a result of continued structural reforms.

Egypt exhibits many strong, positive indicators. Foreign debt and debt services remain low and the maturity profile is highly favorable, with some 96% of debt long term and confessional. Foreign exchange reserve covers more than 10 months of imports.

Egypt successfully launched its dual inaugural Eurobond tranche, of $500 million with a five year maturity, priced at 275 basis points over a five year US Treasury Bond offering a fixed coupon of 7.625%. The second tranche of $1 billion, with a 10-year maturity, was priced at 335 basis points over a 10-year US Treasury Bond offering a fixed coupon of 8.75%.

Hence, Egypt ranks sixth among a number of selected African countries in the World Economic Forum Competitiveness Report for 2001.

Egypt has one investment-grade sovereign credit rating from Fitch, and two below- investment ratings from Standard and Poor's and Moody's

References

Abdel-Rahaman, A.M. (1998), " Egypt's General Sales Tax: Recent Developments and Reforms Ahead " Egyptian Center for Economic Studies, Working Paper No.22,

Abdel Monem, A.(1998), " Egypt's General Sales tax: Recent Develo puments and Reforms Develo pments and Reforms Ahead" ECES, Working Paper No.22, Cairo.

Bisat, Amer, El-Erian, Mohamed A. and Thomas Helbling(1997), "Growth Investment and Saving in the Arab Economics" IMF Working Paper WP/97/85, (Washington: International Monetary Fund, July 1997).

Central Bank of Egypt: Annual Report, Various issues.

Income Tax Law No.157 of 1981 amended by Law No.187 of 1993.

Investment Law No.8 of 1997 " Law of Investment Guarantees and Incentives"

Ministry of Foreign trade: Report Egypt 2004, Cairo, 2004.

OECD Tax Policy: Corporate Tax Incentives for Foreign Direct Investment, 2001

Stamp Duty Law No.111 of 1980