

# Fiscal Policy Critical Taxation Themes For Egypt

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Cairo, Egypt  
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# Agenda

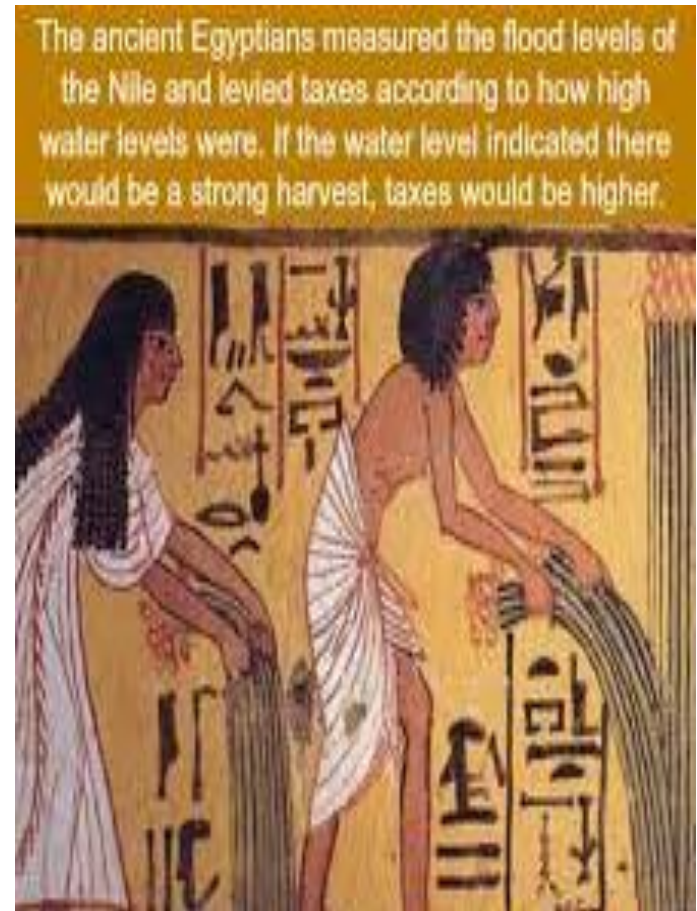
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- Egypt Vision 2022
- Digital Economy
- Transparency and Exchange of Information for Tax purposes
- The Multilateral Instrument, the (“MLI”)
- Transfer Pricing
- International Tax & Capacity Building

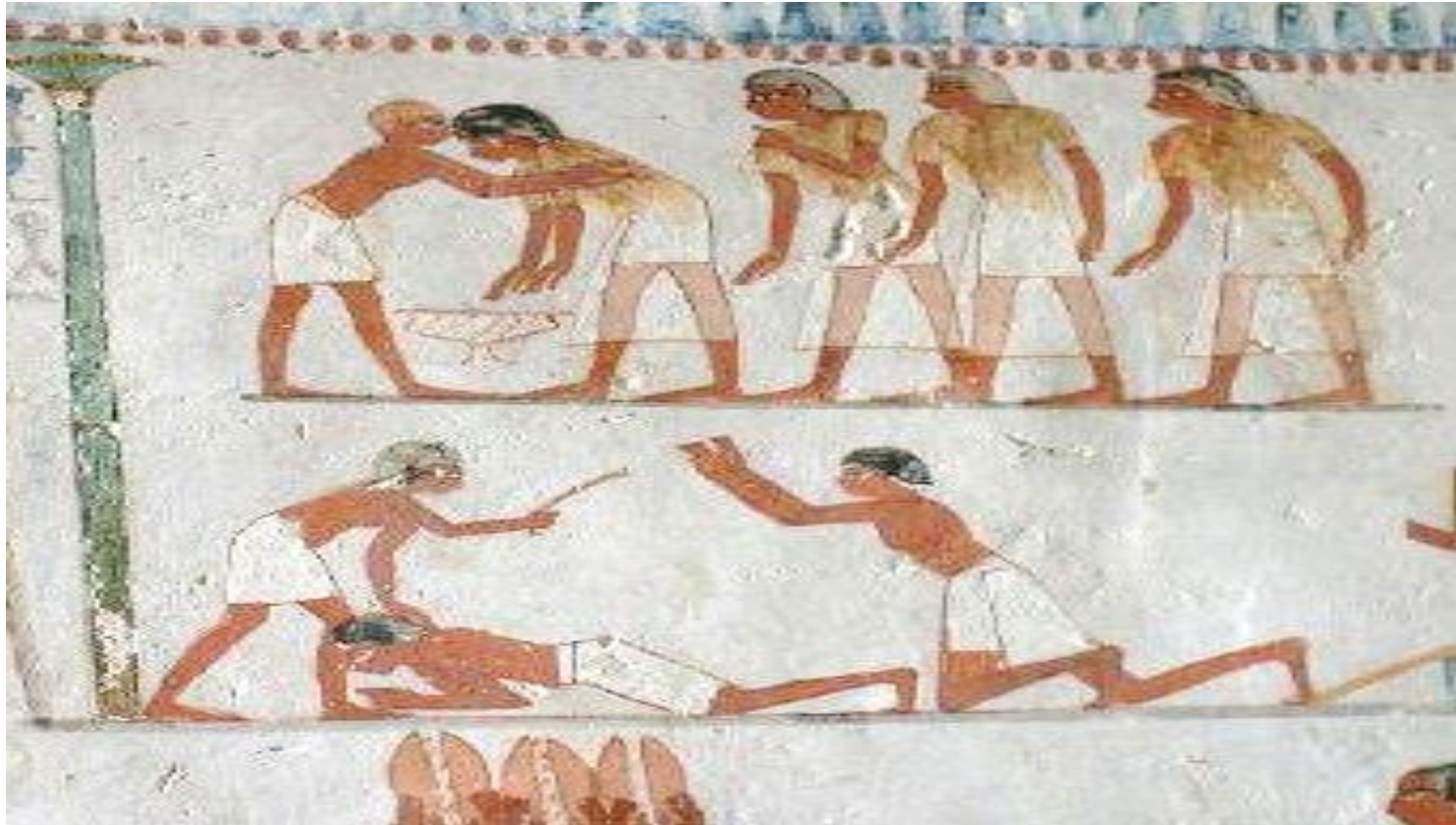
# Taxes collected in Ancient Egypt ...

## 5000 years ago!

- Ancient Egyptians paid taxes in the form of labor or grain that was stored in large warehouses.
- More tax used to be levied during the flood season of the Nile. Some tax exemptions used to be granted during the “no –flood” seasons
- Taxes used to be levied once every two years



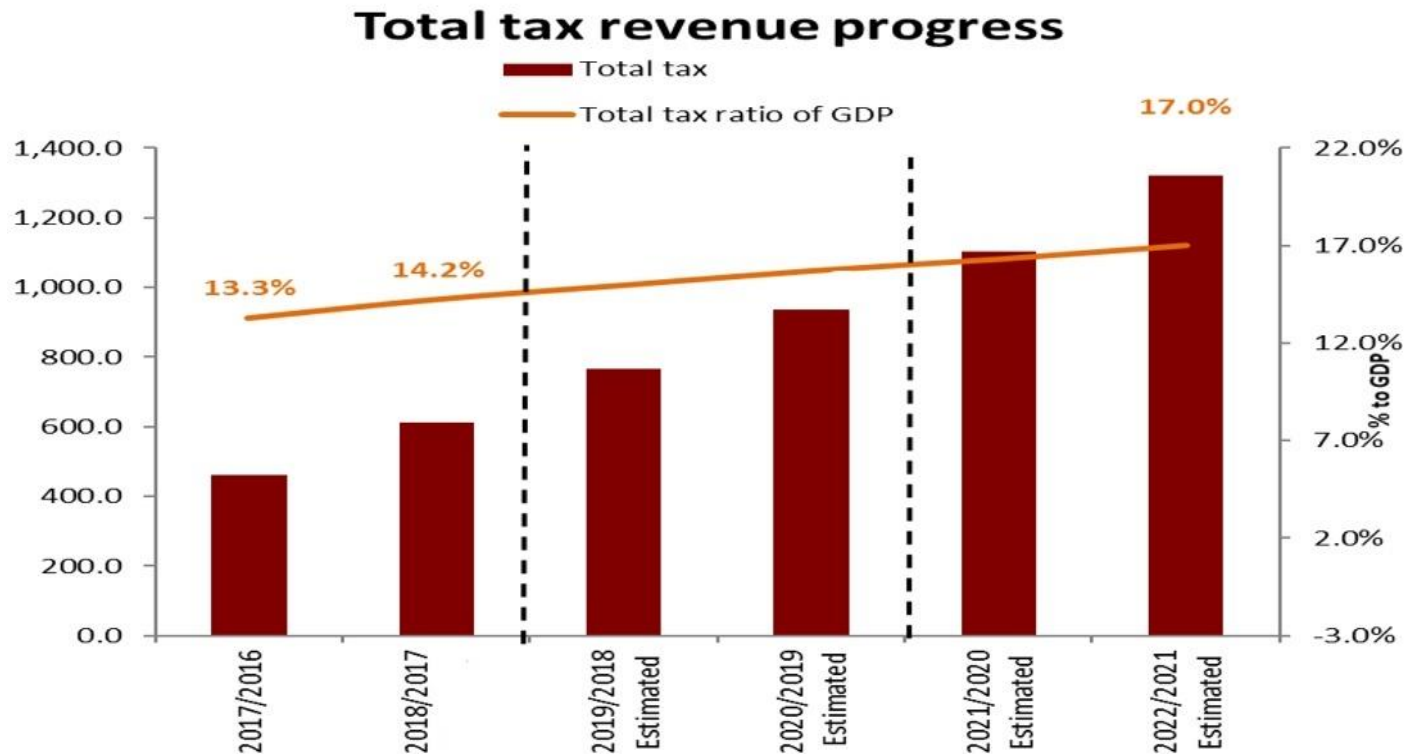
## *Compulsive Taxation in Egypt<sup>1</sup>*



*Violent action by scribes – civil servants whose main task was levying and collecting taxes – against taxpayers. A farmer who had forgotten his obligations is taken by the shoulders and shaken from side to side violently; another farmer is given a caning as punishment and a third is on his knees begging for mercy. (A painting in the tomb of Menena, Scheich Abdel Gurna, Thebes West, 18th dynasty, 1567-1320 BC.)*

# Egypt's Tax Vision 2022

Ministry of Finance aims at setting a stable policy on both short and long term, to achieve fiscal, economic and social objectives, and raise tax revenues through increasing tax revenues to GDP ratio to reach approximately 17% by FY 2021/22 .



# International tax milestones



Egypt joined the Inclusive Framework (IF) on BEPS  
\_where 104 countries and jurisdictions are working together at the Organization for Economic Cooperation and Development (OECD ) to tackle tax avoidance in particular preventing tax treaty abuse and introducing Country -by- country reporting (CbC ) reporting for the activities of MNEs .



Egypt joined the Global Forum on Transparency and Exchange of Information the “Global Forum”  
Key step for Egypt in the fight against illicit financial flows



Egypt joined the Steering Group guiding the IF Work. Egypt is the only member in the region of the OECD/G20 BEPS Inclusive Framework Steering Group among 21 countries to monitor the implementation of the 15 BEPS Action Plans.

# International tax milestones

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Egypt signed the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS ( MLI) .

**Signing the MLI is a milestone in Egypt International tax agenda!**



Egypt joining revenue statistics publication in Africa: It will improve consistency, comparability and quality and accessibility of revenue data providing crucial information to support tax policy dialogue standardized indicators on government revenues

## BEPS Action 1

# Addressing the Tax Challenges of the Digital Economy



# Digital Economy: Key facts & findings

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## What is Digital Economy?

- The “digital economy” is sometimes defined **narrowly as online platforms,**
- And activities that owe their existence to such platforms, yet, in a broad sense, **all activities that use digitized data** are part of the digital economy:
- **In modern economies, almost the entire economy!**

## Why is it important?

- In **2015**, **total value of global e-commerce transactions**, both domestic and cross-border, at **US\$ 25 trillion**. *(WTO Report, October 2018)*
- In **2016**, the value of **e-commerce transactions is US\$ 27.7 trillion**, of which US\$ 23.9 trillion was B2B e-commerce transactions.
- The measures are already delivering **increased revenues** for governments, for example over **3 billion euros** in the **EU** alone as a result of the implementation of the new International VAT/GST Guidelines.

# Digital Economy: Key facts & findings

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## What are the DE challenges?

حق الدولة في فرض  
الضريبة  
على غير المقيم

### Nexus

Rules that determine jurisdiction to tax a non-resident enterprise

### Profit Allocation

Rules that determine the **relevant share of the profits** that will be subjected to taxation

Allocation of taxing rights between jurisdictions

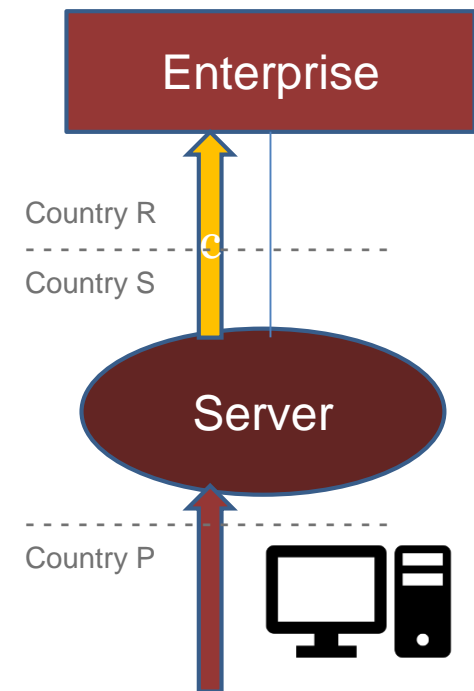
## What are the solutions?

- **Unilateral measures** that could lead to **double taxation** or **double non-taxation**
- **Multilateral measures:** led by the OECD.. More than 100 countries agree to work towards a consensus-based solution.

# Digital Economy: Key facts & findings

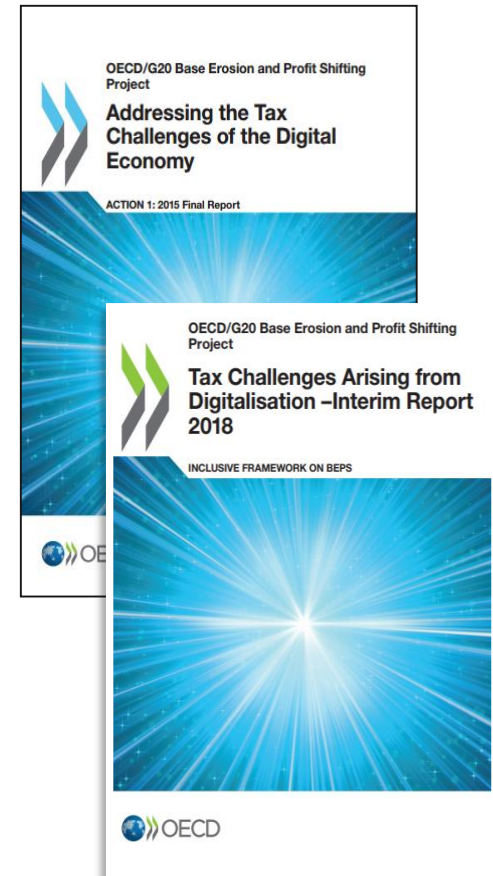
## Questions to be answered:

- Which country taxes the income of the enterprise?
- Does it matter that there is no personnel in Country S?
- Can Country P tax the income earned from the website?



# Digital Economy - Egypt recommendations

- To increase government revenues and support 2022 vision, the following **recommendations** should be taken into consideration:
  - in-depth analysis of the Egyptian business models.
  - value creation arising from digitalisation.
  - identify characteristics that are frequently observed in certain highly digitalised business models in Egypt.
  - impact of digitalisation on all aspects of the tax the system.
  - Stocktake unilateral measures adopted by other countries.
  - Start with VAT in relation to cross border digital services.
  - OECD technical assistance.



# Transparency and Exchange of Information (EOI) for Tax purposes

# Tax Transparency and EOI

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## What is the Global Forum?

- In August 2016, Egypt joined the Global Forum (GF) on Transparency and Exchange of Information for Tax Purposes.
- Global Forum has become the **key international body working on the implementation of the international standards on tax transparency.**
- The Global Forum ensures that these high standards of transparency and EOI for tax purposes are in place around the world through its monitoring and peer review activities.



# EOI - Importance for developing countries

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- Combating tax evasion by increasing global tax transparency, international cooperation and the transparency of corporate bodies, arrangements and financial information.
- Strengthening tax enforcement units, generating additional revenues and restoring the level of public trust in the tax system
- Giving tax authorities visibility over the foreign accounts of their residents, making it far more difficult for tax evaders to hide assets and income abroad.

# EOI Challenges

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1. **Resource constraints**, including human resources, institutional capacities particularly those associated with information and data handling
2. **The complexity of the implementation process** creates a challenge of its own :
  - (i) translating the reporting and due diligence requirements of AEOI into domestic law;
  - (ii) putting in place the administrative and information technology infrastructure and processes required to collect and exchange information under AEOI; and
  - (iii) introducing the necessary safeguards to protect the confidentiality of taxpayer data.
3. **Politically** AEOI may be seen as a sensitive matter which may undermine certain financial interests.



# EOI - Recommendations

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- The Step-by-Step Approach
  - **Step 1: Preliminary evaluation** : A preliminary evaluation of confidentiality and data safeguards framework and other relevant factors
  - **Step 2 : Agreeing upon a practical commitment date:** and setting up an action plan for AEOI implementation.
  - **Step 3 : Formal commitment** : a formal high level commitment to make sincere efforts towards implementing the AEOI Standard effectively, in a timely manner and in accordance with the agreed action plan.
  - **Step 4 : Technical assistance and monitoring/assessment** : technical assistance can be offered as necessary by the Global Forum

# Tax Transparency and EOI: Egypt recommendations

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## 1. The Multilateral Convention on Mutual Administrative Assistance in Tax Matters (“the MAC”)

- The Convention is a freestanding multilateral agreement designed to promote international co-operation for a better operation of national tax laws, while respecting the fundamental rights of taxpayers.
- The Convention provides for all possible forms of administrative co-operation between the parties in the assessment and collection of taxes, in particular with a view to combating tax avoidance and evasion.

## 2. The Multilateral Competent Authority Agreement (“the MCAA”)

- A multilateral framework agreement that provides a standardised and efficient mechanism to facilitate the Automatic EOI in accordance with the Standard for Automatic Exchange of Financial Information in Tax Matters. It avoids the need for several bilateral agreements to be concluded.

# Tax Transparency and EOI: Egypt recommendations

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## 3. Exchange of Information and legislative framework

- The Egyptian double tax treaties Article on Exchange of Information.
- Bank Secrecy and EOI standards - “the era of banking secrecy is over”!
- Egypt’s Global Forum on Transparency and Exchange of Information for Tax Purposes **peer review scheduled for 3Q 2019.**



## BEPS Action 6

Preventing the granting of treaty benefits  
in inappropriate circumstances

(Treaty Abuse)

## BEPS Action 15

**The Multilateral Instrument “MLI”**

# Implementation of the BEPS treaty-related measures – the MLI

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## What is the Multilateral Instrument “MLI” & its purpose?

- Bilaterally renegotiating all of the **3000+ tax treaties** worldwide would take years, if not decades.
- The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting, which is the product of OECD BEPS Project Action 15 and the purpose of which is to **swiftly modify bilateral tax treaties to implement tax treaty related BEPS measures**.
- The MLI already covers **87 jurisdictions covered 1,400 matched treaties** and entered into force on 1<sup>st</sup> July 2018.
- Signatories include jurisdictions from all continents, all levels of development, and other jurisdictions are also actively working towards signature.

# Implementation of the BEPS treaty-related measures – the MLI

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## Why is it important?

- Egypt has a wide treaty network of **59 Double Tax Treaties** in force.
- Egypt signed the MLI in 2017 **listing 55 Agreements** Covered by the MLI implementing the preamble statement and the PPT (Article 6 and 7 of the MLI, respectively).
- Some of Egypt's double tax treaties are dated back to the 1960s, e.g. the UK, Japan, Norway, other treaties contain problematic features that erode source-taxing rights and aggravate tax planning through treaty shopping.
- **Egypt should therefore finalise the MLI ratification process** in 2019 for the following reasons:
  - *protect its tax base;*
  - develop the Egyptian Tax Authority International Tax Unit,
  - avoid bilateral negotiations for its wide treaty network especially after signing the MLI which resulted in **33 matched Agreements**, and
  - to be able to meet the minimum standard on Action 6.

## BEPS Action 8-10

### Egypt Updated Transfer Pricing Guidelines

# Transfer Pricing Reform in Egypt

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## *Policy updates*

- ✓ **Update of the Egyptian Transfer Pricing Guidelines issued in 2010**
- ✓ **Introduction of the three-tiered approach to transfer pricing documentation- BEPS Action 13**
- ✓ **Introduction of Advance Pricing Agreement System**
- ✓ **Amendment of the Executive Regulations – Articles (38), (39), & (40)**

## *Practice*

- ✓ **Establishment of a specialist Transfer Pricing unit within ETA.**
- ✓ **Competent TP audit process.**
- ✓ **Subscription to financial database for transfer pricing audit purposes.**
- ✓ **Capacity building and training to mobilise domestic resources.**



# Future Work: Country-by-Country Reporting

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## *CbCR Practical Manual*

- **The Egyptian Ministry of Finance and Tax Authority will issue a CbCR practical manual addressing practical aspects relating to CbCR filing.**

## *CbCR Training Programme*

- **A comprehensive training plan is being set for ETA's officials on various CbCR aspects including appropriate use, risk assessment in the presence of a CbCR, and exchange of CbCRs amongst others.**

# International Tax & Capacity Building

# OECD programme on Enhancing Domestic Resource Mobilisation in Egypt through a better tax and EOI system

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## *On-the-job training*

OECD Tax Inspectors without borders programme - Technical assistance provided by International tax experts to ETA auditors on real cases.

## *Train-the-trainer programme*

Roll out TTT in international tax across ETA Int. Tax capacity building programmes will train ETA's tax officials to create awareness on a wider scale.

## *International Tax Training Programme*

Continuation on comprehensive International Tax training programme to complement TP specific capacity building for effective and informed TP audits.

**THANK YOU**

Amr ElMonayer  
Cairo, Egypt - 19 March 2019