Summary notes on the ECES roundtable discussion:

Real Estate Tax Dilemma in Egypt: Economic and Social Analysis

Tuesday 9 October 2018, from 10:00 am to 12:00 noon.

Speakers:

- Dr. Samia Hussein, Head of the Egyptian Real Estate Tax Authority
- Engineer Mohamed Zakaria Mohieddin, Parliamentarian
- Mr. Mahmoud Gaballah Abou El Magd, Tax Consultant, Mazars Foundation, Mostafa Shawky
- Dr. Khaled Darbala - IT consultant and expert.

Moderator:

- Dr. Abla Abdel Latif, Executive Director and Director of Research, Egyptian Center for Economic Studies.

The main points addressed in the RTD:

International Experiences:

- The countries under review have a set of common practices in applying the real estate tax,[1] which can be summarized as follows: Automated registration at the municipal level; and the existence of three types of assessment to calculate the real estate tax (based on area, market value or the rental value).
- Most countries rely on market value and area rather than rental value.
- The countries under review follow a clear and transparent methodology to calculate the property value and thus assess the tax, engaging a body specialized in assessment.
- All proceeds of the real estate tax are directed to municipalities, which have a voice and a say in making the relevant decisions.

[1] Such as the USA, South Africa, EU, Latin America, Eastern Europe, Asia, Africa and OECD countries.

- There are no exemptions for state-owned enterprises, as long as they carry out activities similar to those carried out by the private sector (according to international conventions).
- The value of the real estate tax differ from one country to another based on the country's development stage without compromising governance.

The case of Egypt:

- The Ministry of Finance (MoF) conducts a manual inventory of properties in the absence of an operational real estate registry.
- Unlike the prevailing practices in international experiences, where countries use the market value or area of the unit to estimate the real-estate tax, the tax in Egypt is assessed based on the rental value of the unit, making it an income tax rather than a wealth tax.
- The tax is calculated randomly without a precise equation due to the lack of information, which causes many appeals that are difficult to resolve.
- The central government receives all tax proceeds, with municipalities receiving only what the central government allocates.
- Ratio of the real estate tax to total tax revenues in Egypt is very low compared to many other countries.
- The main problem of the Egyptian taxation system lies in the lack of clarity regarding the tax objective. The objective of increasing tax proceeds dominates the other objectives, such as social justice and local development.
- The law must reflect reality. Owning property is not necessarily a sign of wealth.
- Imposing a real estate tax on factories should be reconsidered, given the state's interest in development.
- Production activities, specifically industrial activity, should be exempted from the real estate tax, because the goal of industrial development is greater than any yield from the real estate tax.

The main points of discussion:

- The real estate tax law has suffered since 2008 from frequent amendments and resistance to its implementation from the stakeholders under the pretext of protecting the poor. As a result, collecting the tax was not regular.

- The law stipulates that the assessment method in connection with establishments of a special nature shall be determined through agreement between the Minister of Finance and the competent minister, which has been reflected into the signed protocols.
- There are ongoing negotiations with the Ministries of Transport and Civil Aviation to determine an assessment method for private airports and seaports.
- Relying on the market value in the calculation of real-estate tax in Egypt is unconstitutional, although this might not be the case in other countries.
- Not imposing a real estate tax on a house with a market value of LE 100 million is not correct. Therefore, the taxable value of private residential properties (LE 2 million) should be revisited.
- Registered factories operating in the formal sector should be exempted from the real estate tax.
- The implementation of the real estate tax will continue to be problematic due to the absence of a real estate registry.
- There have been unsuccessful attempts to establish a real estate registry in Egypt for over a century, because most registrations are personal and not property-related, with the latter accounting for only 2 percent.
- There is a huge real estate wealth that we do not know anything about and therefore cannot be taxed because there is no real estate registration.
- Based on the maps of the 10th of Ramadan City, an increase by about 30 percent in the number of real estate units was expected compared to what was identified in the old maps. However, updated maps show an increase of more than 150 percent.
- Overall, the tax system philosophy is problematic, because it focuses on revenues alone in isolation from the rest of the economy and without considering how to use these tax revenues.

Proposals:

- - Assessment should be based on the market value rather than the rental value to avoid the trap of being considered an income rather than a wealth tax.
- - State-owned enterprises should be treated similarly to the private sector as long as they conduct a similar activity.
- Draw on the possibility of imposing a tax on road advertising and mobile towers.

- The need for an integrated tax system comprised of income, real estate and value added taxes, aiming to achieve economic, social and developmental goals.
- The need for a fundamental solution to the assessment problem, that is to operationalize the real estate registry and set a time-frame for its completion using modern technology, rather than resorting to simple solutions such as extending the period of reassessment for two years until 2020.
- Review the real estate tax system in terms of the technological dimension and improve the human element through training and qualifying.
- Not imposing a tax on unfinished real-estate units opens the door not only for the spread of ugly buildings but also for corruption.