

ALTERNATIVE POLICY SOLUTIONS

POLICY PAPER

Toward a Wealth Tax in Egypt

January 2018

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Alternative Policy Solutions

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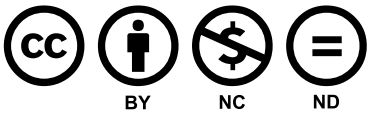
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This paper was prepared by Nader Osama, an economic researcher with Alternative Policy Solutions, under the supervision of the project's research unit. The preparation of the paper involved expansive consultation sessions, including one-on-one meetings and workshops with several experts and officials.

Cover design by Mohamed Gaber.

Alternative Policy Solutions is a non-partisan, public policy research project at The American University in Cairo. Using rigorous, in-depth research and a participatory process of consultations with a diverse range of stakeholders, we propose evidence-based policy solutions to some of the most difficult challenges facing Egypt. Our solutions are innovative, forward-looking and designed to support decision makers' efforts to introduce inclusive public policies.

The views and propositions expressed by Alternative Policy Solutions are those of the project's researchers and consultants and do not reflect the opinions of The American University in Cairo. Inquiries and requests regarding the project's activities should be addressed to the project's team directly.

Executive Summary

- As inequality in income and wealth distribution continues to grow on an international level, the importance of countering this phenomenon has become pivotal to academics and international institutions, especially as the aggravating economic, social and political consequences of this phenomenon continue to hinder economic growth.

- In Egypt, where tax revenues generally represent a minimal percentage of Gross Domestic Product (GDP), there is no official data on the distribution of wealth. However, the limited available data indicates a growing disparity, positioning Egypt among countries with high levels of inequality and as a country where the growth of inequality continues to accelerate. This position increases the risk of economic shocks that are tied to rising speculation, a rentier economy, and the absence of a distribution of opportunities among citizens.

- This paper presents a framework for imposing a progressive comprehensive wealth tax in Egypt that could generate up to an average of LE28 billion annually, a yield that is equivalent to triple the current property tax revenue. This is true if we adhere to the official definition of the tax by following a progressive scenario that starts at 1 percent for the segment with more than US1$ million in wealth holdings, and then increases incrementally until it reaches 5 percent for the segment that has over $1 billion in wealth holdings.

- One of the main pillars of the proposed comprehensive wealth tax is the essential reform of the current real estate tax, given that the share of immovable assets of total wealth in Egypt is 68 percent. This paper proposes to implement transparent and practical criteria for the valuation of property, establish a unit to resolve disputes over valuations, replace tax exemptions with tax credits, and abolish tax exemptions on unused land. The proposed reform would encourage investment in more productive sectors and limit investment in properties as a rentier activity.

- To efficiently implement a wealth tax, it is necessary to combat tax evasion and tax avoidance. This paper proposes various institutional and legal measures to tackle this issue.

- This paper recommends reintroducing the inheritance and gifts tax after changing its scheme. The paper also adopts a framework for an inheritance tax that uses income tax rates in addition to a 1 to 5-percent rate (similar to a wealth tax) in accordance with the size of the inheritance.

- This paper also recommends restructuring the state budget's tabulation to bring it into accord with the latest International Monetary Fund (IMF) standards.

- This paper proposes reforming taxation administration by addressing three main aspects: integration; taxpayer categorization; and independence, enablement and protection.

- Finally, the paper presents recommendations to overcome political, legal and institutional challenges to the implementation of a wealth tax.

Introduction

There is no official data in Egypt on the distribution of wealth. The only available reliable estimation is the annual Global Wealth Report by the Credit Suisse Research Institute, which categorizes Egypt as one of 12 countries with extreme inequality and one of the nine countries with the most rapid growth in wealth inequality, an issue that requires an urgent intervention. According to this data, the top decile's share of wealth increased from 61 percent in 2000 to 65.3 percent in 2007, before being recorded at 73.3 percent in 2014. By using this data to calculate the total wealth owned by the wealthiest segments in the population, we find that, on average, annual wealth grew in the years from 2000 to 2014 by 7 percent for the top 1 percent, and by 5 percent for the top decile. During the same period, total wealth grew by an average of 4 percent, and per capita GDP grew by 2 percent.[1] This sharp and rapid movement of wealth to the top segments in the population has the negative consequences of hindering economic growth, increasing speculation and prompting imbalances in the balance of payments, in addition to the social consequences that result from the concentration of wealth and the widening gap among social classes in a way that could impact stability

The state budget officially includes property taxes. Total revenue from property tax was projected to come in at LE50 billion in the state budget bill for fiscal year 2017/18, LE36 billion in the state budget for FY 2016/17 (8.43 percent of total tax revenue), and LE41 billion in the state budget for FY 2015/16 (9.76 percent). But the actual revenue collected from property tax was a mere LE28 billion in FY 2015/16, which is 68 percent of the initial estimates. On average, property tax represents 1 percent of GDP.

Egypt's property tax is not a unified tax on wealth. Although, it is represented as such in the state budget. The property tax is made up of taxes on land, buildings, property ownership transfer fees, and fees on automobiles. The tax also includes gains from treasury bills and bonds. Although, these gains should not fall under the property tax, because they are in fact taxes on income. Finally, there is an item in the state budget for regular taxes on net wealth and taxes on real estate and inheritance and gifts. However, the itme, in both the state budget and the Finance Ministry's General Budget Final Account, shows neither estimates, nor what has been collected.

A unified and comprehensive wealth tax is absent from Egypt's tax policy, where the tax is fragmented in its application over various assets (land and buildings in particular). This makes it more difficult to determine the impact of property tax on inequality and the economy as a whole. In other words, the tax is treated from the perspective of an accounting matter in the state budget rather than as a single economic policy. It is treated rather as a number of separate laws that deal with wealth as a fragmented issue. One of the main shortcomings of this approach is that it makes it more difficult to determine the adequate (or progressive) rate for the tax, which should be done by looking at the tax system comprehensively, especially the capital gains tax. Such a comprehensive view is directly related to the effectiveness of a wealth tax.[2] Hence, it is more logical for the tax to have a framework that includes various types of assets. This comprehensive tax would then be determined in accordance with the type of asset in order to understand the impact of the tax on each asset and its owners.

In this paper, we discuss the most important steps toward implementing a wealth tax in Egypt as one of many tools to deal with the current crisis of the rise in inequality in the distribution of wealth among various social classes, in order to boost growth and reduce the negative social, political and economic impact of inequality. Moreover, a wealth tax can also function as a fiscal policy tool that would have a positive impact on the state budget through its capacity to raise tax revenues with the least cost to growth compared to other types of taxes, according to the International Monetary Fund and the Organization for Economic Cooperation and Development.[3]

1- See Appendix 1: Credit Suisse, *Global Wealth Databook 2014* (Zurich: Credit Suisse, 2014), 34-90; 125-126 http://economics.uwo.ca/people/davies_docs/credit-suisse-global-wealth-report-2014.pdf.

2- Thomas Piketty and Arthur Goldhammer, *Capital in the Twenty-First Century* (Cambridge MA: Harvard University Press, 2014), 526-529

3- International Monetary Fund, *Fiscal Policy and Long-Term Growth*, (Washington, DC: International Monetary Fund, 2015), 2-3; 11; 13-14 https://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/Fiscal-Policy-and-Long-Term-Growth-PP4964.

The tax we are proposing here is a comprehensive tax on wealth that includes financial and non-financial assets (e.g. land and real estate). It is a reasonable concept, as the share of non-financial wealth of Egypt's total wealth is 68 percent,[4] which indicates there is a possibility to come close to achieving the goal, if the real estate tax were developed and if tax avoidance and tax evasion were prevented. We also discuss the implementation of an inheritance and gifts tax and an adjustment of the classification of the property tax in the state budget. Finally, we conclude with a discussion on the feasibility of these policies in Egypt.

4- Richard Kersley and Antonios Koutsoukis, *The Global Wealth Report 2016* (Zurich: Credit Suisse, 2016), 31-95 https://www.credit-suisse.com/corporate/en/articles/news-and-expertise/the-global-wealth-report-2016-201611.html.

Literature Review

The wealth tax (or property tax) is a tax payable on ownership and use or transfer of assets after deducting debt, according to the IMF Government Finance Statistics Manual.[5] Taxes on property are divided into those on movable property (such as securities) and those on immovable property (such as land and real estate). A paper by the IMF and the Organization for Economic Cooperation and Development (OECD) recommends expanding the use of property taxes because they have some of the lowest negative effects on growth rates.[6] The paper also recommends imposing the tax once, as an exception, in response to the international debt crisis and to create fiscal space for governments.[7] Nonetheless, French economist Thomas Piketty calls for the property tax to become regular, and for it to be imposed for longer periods of time, because this would make the tax more equitable and would create a balance and connection between wealth taxes and income taxes, making the rates politically legitimate.[8] Furthermore, the main logic behind Piketty's call for the implementation of a global tax on capital is an equitable and efficient tax system. And this is because the concept of income that is used to impose an income tax does not cover the real rise in the value of owned property, which exceeds what is categorized as income and is often outside the tax system and, as such, is exempted. Thus, according to Piketty, there needs to be a tax to cover this gap.[9] However, while Piketty proposed the tax as a universal policy requiring international coordination, which might not occur, there is something that can be done domestically, to translate the concept and implement it in Egypt.

The objectives of the tax are divided into three points: 1) economic objectives which focus on regulating the concentration of wealth that are economically costly because of the crises that result from speculation and a rentier economy, as well as capital outflows that have a negative effect on the balance of payments;[10] 2) qualitative and social objectives which include, most importantly, fighting inequality in the distribution of wealth, income and social opportunities;[11] 3) political objectives which seek to promote democracy, transparency, political accountability, and equality of opportunity among citizens.

It is difficult to understand the history of a wealth tax due to the variation in the reasons it has been imposed, reasons which have rarely included countering inequality and have often been driven by the need to raise tax revenues or to finance domestic services. This can be seen in the case of the real estate tax. Consequently, there is widespread controversy over the possibility of enforcing a wealth tax and on whether the actual collected tax revenues would balance the required administrative costs.[12]

5- International Monetary Fund, *Government Finance Statistics Manual 2014*, (Washington, DC: 2014), 93-95 https://www.imf.org/external/np/sta/gfsm/.

6- International Monetary Fund, *Fiscal Policy and Long-Term Growth*, 2-3; 11; 13-14

7- Fiscal Monitor, *Taxing Times*, (Washington, DC: International Monetary Fund, 2013), 39 http://www.imf.org/external/pubs/ft/fm/2013/02/pdf/fm1302.pdf.

8- Piketty and Goldhammer, Capital in the Twenty-First Century, 526-527

9- Ibid., 526

10- Era Dabla-Norris; Kalpana Kochhar; Nujin Suphaphiphat; Ricka Frantisek; and Tsounta Evridiki, *Causes and Consequences of Income Inequality: A Global Perspective*, (Washington, DC: International Monetary Fund, 2015), 8-9 https://www.imf.org/en/Publications/Staff-Discussion-Notes/Issues/2016/12/31/Causes-and-Consequences-of-Income-Inequality-A-Global-Perspective-42986 See also: Joseph E. Stiglitz, *The Price of Inequality* (New York: W.W. Norton & Company, Inc., 2013).

11- Anthony B. Atkinson, *Inequality : What Can Be Done?* (Cambridge MA: Harvard University Press, 2015), 192-201

12- Soheir Abouleinein, *Al-Dara'eb A'la Al-Tharwa wa Al-Arbah Al-Raasmaleya - Al-Mafaheem wa Imkaneyat wa Moshkelat Al-Tadbeeq fi Misr [Wealth taxes and capital gains taxes - conceptions, possibilities and challenges to implementation in Egypt]* (Cairo: Institute of National Planning, 2016). https://goo.gl/3yYEYd.

Nonetheless, there are many reasons why the wealth tax should not be rejected altogether. First, the tax's main shortcoming, especially during its stage of decline in Europe, was that it did not keep up with international economic conditions, particularly the cross border movement of capital, in addition to the lack of development of institutional tools for the valuation of wealth, leaving the tax in its current state: inapplicable in the 21st century.[13] Subsequently, it is possible to assess the reasons for a wealth tax's weakness and methods for its development, or to think of the tax in a contemporary manner that stays abreast of global developments. Second, it is important to take into consideration that taxes on wealth were part of the welfare state that appeared in Europe in the 20th century. Although the welfare state is in decline and inequality on the rise, its legacy has contributed to slowing the rise in inequality across Europe in comparison to the United States.[14] Hence, it is possible to look at the benefits of a wealth tax in a relative manner. Third, there is a correlation between the decline of taxation on wealth and the weakness of an equitable tax system in general. This is true particularly when put in the context of an absence of transparency in general and a lack of exchange of information between tax authorities and banks, the latter of which refers to information on the conditions and distribution of wealth. But extensive efforts have already begun for international reform that seeks to overcome the challenges that tax systems face due to the weakness of tax institutions[15] and the rise of tax havens.[16]

13- Piketty and Goldhammer, *Capital in the Twenty-First Century*, 523-524

14- Ibid., 292-293; 288-294

15- Mostafa Abd El Qader, *Al-Azamat Al-Iqtisadeya fi Misr: Al-Makhraj wa Al-Holoul Al-Mutaha - Islah Al-Siyasa Al-Daribeya Fi Misr [Economic Crises in Egypt: Outlet and Available Solutions - Reforming Taxation Policy in Egypt],* (Cairo: Egyptian Center for Economic Studies, 2016), 35 http://www.eces.org.eg/MediaFiles/Uploaded_Files/f21fe046.pdf.

16- Gabriel Zucman, *The Hidden Wealth of Nations : The Scourge of Tax Havens* (Chicago: University of Chicago Press, 2015).

Methodology and Data

First, we analyzed in detail the position of the property tax within the classification of the state budget and past and present related laws and policies. This was done in search of gaps and points of weakness in policies, particularly in the absence of a framework or a public policy that organized the distribution of wealth. The taxes that we studied included immovable taxes (land and real estate) and the history of the inheritance and gift tax. Based on this analysis, we propose practical policies to reform the property tax system.

The main obstacle in creating a more detailed methodology to interrogate the impact of taxes on the distribution of wealth was the absence of official data to evaluate the extent of the concentration of wealth, and the consequences of and remedies to such concentration. Here, it is necessary to assert the importance of collecting and publishing this data either through the Household Income, Expenditure, and Consumption Survey or separately through the Household Balance Sheet Data, which lays out in detail the size of assets for all household brackets.

Due to the absence of official data, we relied on the Credit Suisse Research Institute's estimates, which consist of the distribution of individuals in the top wealth categories (those whose net worth is more than US$1 million to those whose net worth is more than $1 billion),[17] and an estimate of the minimum and maximum total wealth for each bracket. Then, we used one of Piketty's suggestions in his book Capital in the Twenty-First Century for a progressive regular tax on wealth of up to 10 percent, in order to estimate the minimum and maximum expected annual tax revenue: LE22 billion is the minimum and LE64.6 billion is the maximum, i.e. LE43 billion on average, if we assume a normal distribution of individuals within each wealth bracket.[18]

In this hypothetical scenario, tax rates were chosen according to the annual growth rate of wealth for the top decile and percentile of the population in the years from 2000 to 2014, which was 7 percent for the top percentile and 5 percent for the top decile. The paper adopts the smaller figure as a maximum rate for the progressive tax on wealth, based on the assumption that the wealth growth rates exceed the average as we progress to the upper wealth brackets. The estimated tax revenue according to this scenario ranges between LE12.8 billion and LE43 billion, i.e. LE28 billion on average.

17- Kersley and Koutsoukis, *The Global Wealth Report 2016*, 117

18- See Appendix 2

Best Practices

We depend here on the best practices for a property tax, while taking into consideration that most of the points mentioned are applicable, specifically for a real estate tax, but also relate to other forms of property tax. The main problems facing a property tax, especially in emerging economies, are increases in tax exemptions and the erosion of the tax base, the inability to include all properties in the tax base (as a result of preferential treatment granted to some asset types, such as primary housing), low collection rates, absence of financial decentralization, and inefficient tax administration due to the absence of data and property records. Thus, the objective is to raise the effective tax rate, which is the size of taxes divided by the market value of the assets, which in turn is affected by the tax base and asset coverage ratio, valuation rate and collection rate. This helps estimate the tax burden on each property type.

Best Practices Based on Comparative Studies[19]

1. Examine the existing property tax scheme, considering the objectives to increase revenue collection and to regulate the use of assets and the concentration of wealth, etc.

2. "Policies First": The formation of policies precedes any step toward administrative reform. It is necessary to follow criteria of simplicity, equitability and consistency in the formation of policies.

3. Choose valuation and estimation methods for real estate based on: rent value, capital value per property unit and renovations, land value, or location value. While the international approach currently bases valuation on capital value, the decision should ultimately be based on the conditions faced by each country when it comes to the degree of development of the real estate and land sector.

4. Limit exemptions for properties that adhere to a very specific and clear criteria, as opposed to determining exemptions via preferential treatment for types of property, such as primary residences or government units. If these exemptions are already in force, then the renewal of the exemption must depend on a comprehensive valuation and disclosure of all exemptions, or it may be replaced by tax credit.

5. Introduce an administrative reform program that is built on coordination and exchange of information among agencies and creating a network that connects assets.

6. Add all properties to the tax roll because partial coverage is considered a weakness in the property tax system. Comprehensive coverage can be achieved through dependence on the Geographical Information System (GIS) and adoption of a national real estate ID that connects land to real estate units and tax records.

7. Focus and redirect administrative resources to improve valued properties' share of the total market value.

8. Reduce or remove the obstacles on property value disclosure by replacing the property transfer tax with a capital gains tax on transactions for real estate and land.

9. Increase collection rates through limiting preferential treatment and reducing the cost of commitment and disclosure.

10. Establish a tracking system for property tax via quantitative indicators, such as the tax gap and the gap between an asset's sale value and its real value, collection rates and cost of exemptions.

19- Roy Bahl, *Property Tax Reform In Developing And Transition Countries*, (Washington, DC: USAID, 2009), v-vi; 4 http://pdf.usaid.gov/pdf_docs/Pnadw480.pdf.

Proposed Policies

Within a framework that puts forth a comprehensive conception of tax policies, this paper presents a package of suggestions to establish a wealth tax, which include introducing a new tax on wealth; amending existing taxes, such as those on real estate; and reinstating taxes, such as that on inheritance. Subsequently, the paper presents amendments necessary for preventing tax evasion and tax avoidance and the establishment of a new administrative and accounting system that would allow for the implementation of these policies.

1. Regular Comprehensive Tax on Net Wealth

The main proposition by the IMF, the OECD and Piketty is to impose a tax on net wealth (after deducting debt), including movable assets, such as securities. Wealth is defined as total movable properties (securities), and immovable properties (land and real estate). This tax can be used as a comprehensive framework to regulate property taxes, as it is imposed on total properties. Then, the tax credit system can be implemented to deduct the wealth tax on immovable assets (land and real estate) and the inheritance and gift tax from total due taxes.

Consequently, Piketty proposes a progressive tax on wealth that could reach up to (according to one of his suggestions) 10 percent for those whose net worth exceeds 1 billion euros.[20] In the meantime, there is a more modest scenario, i.e. a progressive tax starting at 1 percent for those whose net worth exceeds US$1 million dollars (i.e. most of the rich). This percentage then progressively increases until it amounts to 5 percent for those whose net worth exceeds US$1 billion.[21] These tax rates are reasonable when compared to the wealth growth rates for the top wealth brackets, and if we assume that these increase as we move up the wealth scale.

By calculating the average rise in wealth based on the Credit Suisse Research Institute data for the top percentile and top decile of total wealth holders in Egypt, and by calculating the annual rate from 2000 to 2014, we find that the average annual increase is 5 percent for the top decile and 7 percent for the top percentile. If we choose the lower rate as a reference in settling on the highest tax rate and if the average tax rate across all tax categories is 1 percent, we can estimate the minimum tax revenue would be LE13 billion and the maximum revenue would be LE43 billion, i.e. an average of LE28 billion (according to the exchange rate at the time the report was released). This average revenue would be triple what is actually collected from property tax at the moment (if we use the definition of property tax).

But the implementation of a wealth tax requires a set of measures that aim to prevent tax evasion and avoidance. Egypt has already begun implementing several of these measures, a development which would facilitate the implementation of a tax on wealth and the efforts to ensure the success of the wealth tax system in general. In this context, the following measures come to the forefront:

i. Deductible Tax on Transactions Transferring Money to Tax Havens

This deductible tax would be imposed on all transactions involving individuals and corporations registered in tax havens and is removed once the nature of the transaction is disclosed to confirm it was not a transfer of profits, which can be detected through the country-by-country reporting that reveals transactions in every country. This is a policy already implemented in the United Kingdom, United States and El Salvador.[22]

ii. Country-By-Country Reporting

This is action 13 in the Base Erosion and Profit Shifting (BEPS) project, which aims to support governments with domestic and international tools to counter tax avoidance and ensure that taxes on prof-

20- Piketty and Goldhammer, *Capital in the Twenty-First Century*, 517

21- See Appendix 3

22- Osama Diab, *Al-Seyaha Al-Daribeya: Mesmar Jadid Fi Na'sh Al-A'dalah Al-Ijtima'eya [Tax Havens: A New Nail to Reviving Social Inequality]*, (Cairo: Egyptian Initiative for Personal Rights, 2015), 13. https://www.eipr.org/sites/default/files/reports/pdf/_tax_haven.pdf.

its are levied in their country of origin. Action 13 also seeks to close legal loopholes in various tax systems that allow tax avoidance. These reports reveal transactions in each country separately, in particular for the measures that allow for transfer pricing. In this system, multinational companies (MNCs) report to tax authorities in the country where their headquarters are based, but these authorities would operate under the supervision and criteria of the OECD. The MNCs separately report information on each of their branches to the authorities where the branch is located. These reports are then shared with the tax authorities of the country with which the company trades.[23]

The information disclosed includes: size of sales, gross profits, taxes due, size of operations in terms of employees, investments and assets. Additionally, the size of purchases can be added to the income statement to observe the payment and collection of interest rates and costs of wages. The objective of these pieces of information is not to impose taxes. Rather, the aim is to collect accurate and meticulous information on the size of actual operations and transactions for companies and the sources of their profits, as well as the movement and location of their tax payments. This ultimately aims to track profit transfers, which can be estimated by considering three factors: sales with other entities as a share of total sales, number of employees in each country as a share of total employees, size of assets in each country as a share of total size of company assets. If these figures are small, there is a higher possibility that the company transfers profits. There is also another argument used to encourage companies into revealing these pieces of information, i.e. shareholders rights.[24]

Egypt joined the BEPS project in July 2016. However, it has not taken steps yet toward issuing those reports because the reports are not part of the multilateral treaty which Egypt signed in July 2017. Rather, the reports are part of a separate agreement concerning transfer pricing in particular, which Egypt has not signed. Egypt would be set to adopt these measures, if it completes procedures to join the project and negotiates methods of implementation, which would require institutional, technical and legal reform, especially regarding bank account confidentiality.

There is currently international pressure to reform these criteria, which would require companies to change their accounting systems and encourage Egypt's tax authority to respond to international pressure by imposing reforms. Egypt has another motive to perform those reforms, notably membership in the African Tax Administration Forum, which calls for the same system.[25]

iii. Disclosure and Registration of Ownership Structures Benefiting from Overseas Funds

The information required in the disclosure and registration of ownership structures benefiting from overseas funds includes: the name of the entity; names of members of the board of directors, their addresses and the nature of their economic activity; the names of owners who hold more than 10 percent of the shares in a company and the names of subsidiary companies; financial statements, budgets and cash flow statement; tax statements and a company's accounting framework. The information required for disclosure of and registration of ownership structures that benefit from overseas funds would also include a justification for issuance of executive bonuses as well as salaries and bonuses for employees. These documents are meant to be shared with relevant authorities. Examples of such authorities include: the auditing authority in the country of origin, the tax authorities in the countries with which the company trades and the addresses of the owners who hold majority shares. There are also punitive measures for those who fail to provide these records. The countries that have the right to view the records would be able to demand financial statements from

23- Richard Murphy, *Dirty Secrets : How Tax Havens Destroy the Economy* (London: Verso, 2017), 102-105

24- Ibid., 101-102
See also: Joseph; Spanjers and Matthew Salomon, *Illicit Financial Flows to and from Developing Countries: 2005-2014* (Washington, DC: Global Financial Integrity, 2017), http://www.gfintegrity.org/report/illicit-financial-flows-to-and-from-developing-countries-2005-2014/.

25- PwC. *Tax Transparency and Country-by-Country Reporting: BEPS and Beyond*. (London: PwC, 2016), 11, https://www.pwc.com/gx/en/tax/tax-policy-administration/assets/tax-transparency-and-country-by-country-reporting.pdf.

companies that do not disclose their ownership structures, in order to calculate due taxes and withdraw limited liability privileges from the companies that do not pay taxes.[26]

For example, in July 2016, the European Commission suggested that EU countries be obliged to establish a registry for ownership of MNCs in each country that would be made available to financial and tax authorities, as well as other relevant authorities.[27]

Egypt's Parliament recently passed Law 33/2017, mandating that publicly listed companies and investment funds must disclose the legal nature of their ownership structures, the country in which they were established, the law regulating their establishment, their activities and their objectives, and their board of directors and beneficiaries. If a listed company is one of the MNC's beneficiaries, the law requires the listed company to disclose those parties who own more than 25 percent of its shares. The 2007 law is the first to regulate trust funds, and it includes new criteria for disclosure that can be used for auditing and supervision, as well as for countering tax evasion and funding terrorism. This law is a step forward that can be built upon, but there remains a need for further information on the financial position or each entity or subsidiary in each country separately.

iv. Regulation of the Operations of Service Providers Allowing the Accrual of Benefits from Tax Havens

The regulation of operations of service providers that facilitate the accrual of benefits from tax havens includes, in particular, accounting sectors, legal services, and wealth management. It is important to link the licensing of companies with disclosure obligations, information sharing and assistance in order to discover methods of tax evasion and tax avoidance both locally and internationally. There is also a need to develop a professional standards and principles against tax evasion charter.[28]

v. Calculating the Tax Gap

The tax gap is the difference between tax projections and actual tax revenue collected. This gap is calculated to estimate the actual size of tax evasion. Following the calculation of the tax gap, it is a useful metric to evaluate tax collections and the practical obstacles in the collection process.

The tax gap is easily estimated by calculating the theoretical size of taxes using national account estimates divided according to sector or income type or between income and consumption. Afterward, actual tax revenues can be compared to the estimates. There are two types of gaps: one that results from tax policies, especially exemptions, and another that results from noncompliance, which is what remains after exemptions are deducted from total tax estimates. The importance of the noncompliance gap is that it is the best method to assess the integrity and efficiency of a tax system. It is also preferable to publish this information due to its implications, which society has the right to be know about. This is ultimately meant to reinforce transparency and thus confidence in the system, as well as willingness for compliance. Examples of countries that use the tax gap as a metric include Denmark, Canada and Holland.[29]

vi. Exchange of Tax Information

Actions at the domestic level do not trump the importance of action at the international level because of the nature of tax evasion and avoidance in respect to immovable assets in particular. Of course, there are challenges to these international efforts, the most important of which is that each country has the right to choose the other countries with which it shares information. Hence, there is no obligation to exchange information with developing countries, which are affected most by tax avoidance and evasion. However, there are calls to address the problem and increase the effectiveness of information exchange between developed and developing countries.

The first actions that can be taken relate to participation in the exchange of tax information and contribution to international efforts by the Global Forum

26-Murphy, Dirty Secrets : *How Tax Havens Destroy the Economy*, 109; 111-113

27- Spanjers and Salomon, *Illicit Financial Flows to and from Developing Countries: 2005-2014*, 22

28- Murphy, Dirty Secrets : *How Tax Havens Destroy the Economy*, 117-119

29- Ibid., 120

on Transparency and Exchange of Tax Information (OECD and G20). Egypt joined the forum in November 2016, but it is yet to begin adhering to the legal and accounting standards criteria adopted by the forum in the context of the Automatic Exchange of Information (AEOI) project. But the first step Egypt must take is to review banking confidentiality laws, while, at the same time, retaining privacy standards, which are regulated by the project's framework. There is also a need to enforce laws that allow tax authorities to access information (in accordance with article 59 of Law 53/2014).[30]

vii. Wealth Indicators

Re-imposing the disclosure of wealth through reviving Law 157/1981, which was repealed in 2004, will be beneficial in comparing income disclosures with changes in wealth that could then be used to impose a wealth tax.[31]

Article 131 of the income tax law (Law 157/1981), which was repealed by Law 91/2005, stipulated that each taxpayer who is taxed for commercial and industrial profits, for profits of non-commercial professions and must submit under the general income tax a periodic disclosure every five years pertaining to their own wealth, as well as that of their spouse and child dependants. Article 131 created an exemption on disclosures of wealth for those previously obligated to submit a financial declaration under the terms of the illegal profiteering law (Law 62/1975). There is no reference to wealth declarations in the current income tax law.

viii. Reforming Tax Administration[32]

A successful tax reform program includes three main axes: 1) integration, 2) taxpayer categories, and 3) independence, enablement and protection. **Integration** refers to the establishment of a sovereign resources authority that would bring together the three tax authorities – the tax authority, the Real Estate Tax Authority and the customs authority – under one umbrella that supervises the operations of each department separately, organizes reforms, and facilitates the exchange of databases and consolidation of procedures to reduce the administrative burden and increase efficiency. This would be undertaken based on the principle that different types of taxation complement one another. For example, in the case of the proposed wealth tax, which is certainly related to the capital gains tax and the property tax, there should be a consolidation and sharing of procedures and information. Stakeholders, including employees at the tax authorities, must also be represented in the new authority, in order to ensure the legitimacy of reforms and to reconcile different interests.

Taxpayers should also be divided into small, medium and large financiers. Criteria and language for each segment should be formulated in accordance with differences in their circumstances, while maintaining equitability between them. For example, with the establishment of a committee of large financiers, the problems and complaints they articulate can be addressed more efficiently to prevent tax evasion and tax avoidance.

For independence, there is a need to balance the requirements of administrative control, on the one hand, and, on the other, to enable the tax collection representative to detect corruption and tax evasion. The tax collector may not be incentivized to do his or her job as an inspector, either out of fear of prosecution or the threat of facing legal measures for a taxpayer's infraction. The complexity of reporting procedures that must pass through the Finance Ministry and can be rejected could also present another challenge to the tax collector. In order to solve this dilemma, there must be a distribution of tasks between internal control (inspectors and the control sector within the tax authorities) and external oversight (administrative prosecution, administrative oversight, Central Auditing Authority), while also providing legal support from the Sovereign Resources Authority instead of the State Council. This would empower internal legal regulation. Here, the focus is on prevention rather than punitive measures and the promotion of self-censorship. Also, reporting procedures should be simplified within a specific and structured framework that gives tax agents the authority to perform their legal role directly rather than through the finance minister.

30- Mostafa Abd El Qader, *Al-Azamat Al-Iqtisadeya fi Misr: Al-Makhraj wa Al-Holoul Al-Mutaha - Islah Al-Siyasa Al-Daribeya Fi Misr [Economic Crises in Egypt: Outlet and Available Solutions - Reforming Taxation Policy in Egypt]*, 35.

31- Ibid., p. 36-38

32- Ibid., p. 31- 33

2. Adjusting the Real Estate Tax and the Land Tax

The first step in imposing a comprehensive tax on wealth is adjusting the real estate tax law that was passed in 2008 and began a gradual process of implementation in 2014. There is a significant opportunity in the real estate tax for several reasons: 1) the nature of the tax and the relative ease of collection; 2) real estate estimates make up to 68 percent of total wealth in Egypt,[33] which makes it the largest immovable component that cannot be evaded; 3) it is a tax on the unproductive investment in rentier activities and hence is a tax that has no significant impact on growth and productive investments; 4) it represents a tool for transferring capital to more efficient economic activities. Since the implementation of the real estate tax in Egypt remains in its initial stages, there is a chance to amend the law and develop the tax to ensure higher collection rates and attainment of social justice.

However, the implementation of the real estate tax faces two main obstacles. The first is related to valuation methodology, and the second is related to exemptions. In the case of the valuation of each unit rent value, article 13 of the law and the executive regulations stipulate that a building is valued based on three criteria: location, utilities, and building condition. The valuation process is then subject to inspection committees that are composed of a member of the Real Estate Tax Authority, representatives from the ministries of finance and housing, and two candidates from the municipality.

The problem lies in the absence of a detailed guide on how to translate these criteria into numbers, which has resulted in the committee's dependence on the average market price (either the market value in a base year, rent contracts, or similar rents). Subsequently, there arises a significant disparity between the values of different units in the same neighborhood or even the same street, leading to poor estimates and a lack of transparency in the whole process, creating a mass of complaints from taxpayers, which ultimately delays collections. There is yet to be a price guide that can reflect the criteria of location, utilities and building conditions. This is mainly due to the volatile real estate market and incomplete databases.

An example of the vagueness of criteria is the inclusion of what is known as "buildings of a special nature," a category that captures factories, hotels, ports and airports, which are difficult to value because they are not tradable. Thus, according to the law, they are valued through agreements with the ministers of finance, industry, tourism and transport. The only criteria to have been set pertains to factories, while there remains no methodology to value hotels, ports and airports, which ultimately delays implementation of the tax.

Moreover, it is important to look into the system that determines which units are taxable. According to the Ministry of Planning and Administrative Reform website and the General Commission for Survey, the government is embarking on a national project for real estate records (2008 - 2018).[34] According to its documents, the project's main task is to create a database for real estate wealth in Egypt and establish a unified real estate code for built estates, in addition to automating the process for the issuance of building permits. Other partners in the project include the Real Estate Publicity Department (which handles registration), the General Commission for Survey, the Real Estate Tax Authority, the New Urban Communities Authority, governorates and municipalities. But information on the actual completion or progress of the project or the beginning of the real estate urban registry is unavailable. Notably, the beginning of the real estate registry for Sheikh Zayed and Shorouk cities on the outskirts of Cairo was supposed to begin in June 2011 but was postponed according to Justice Ministry Decree 11901/2009.[35] The launch has been postponed several times subsequently by several ministerial decrees, the latest of which was Decree 69/2015 that postponed the launch until the end of 2015. It is unclear whether the

33- Kersley and Koutsoukis, The Global Wealth Report *2016*, 31-95

34- Egyptian Ministry of Planning, Follow-Up, and Administrative Reform. *Al-Mashrua' Al-Qawmi lel-Segel Al-A'ini lel-A'eqarat Al-Mabneya 2008-2018 [National Project for Records of Built Structures 2008-2018]*, (Cairo, 2016), http://mpmar.gov.eg/ar-eg/mop/updating-linking/Upload_Main_Entity_Db_AssetMedia_Filename_cbcad7a903418b07c43a59df0d36721d.pdf.

35- Decisions by the Justice Minister numbers 5110 for year 2011, 4922 for year 2012, 4706 for year 2013 and 4754 for year 2014.

registry came into effect at that time or not.

The second problem lies in tax exemptions, specifically the exemption of primary or private residences that are valued at under LE2 million. First, it is difficult to prove permanent residence, because the committee can't inspect inside houses to prove the state they are in, raising the burden on the Real Estate Tax Authority, while giving the taxpayer the responsibility to prove their permanent residence through a form submitted to the authority, which often leads to non-compliance. Second, this allows for tax evasion, as a taxpayer can register secondary residences as private residences under the name of various family members. This ultimately excludes many residential units from the tax base. To grant primary residences tax exemptions results in weak tax collection and reduces the tax's economic efficiency.[36] Another problem raised by the current exemption limit is that it often results in disputes between the inspection committee members and the Real Estate Tax Authority over determining the rent value of the primary residence and whether the exemption applies.

Consequently, this paper proposes placing all residential units owned by a family[37] in the same tax base without preferential treatment given to a primary residence, while imposing the same exemption limit of LE2 million on the total value of houses in the family tax base to improve tax equitability and collection. This proposal takes into consideration the correlation between a family's financial situation and the number of owned real estate units, whether for residence or investment, while acknowledging the right to have a representative residence in the exemption limit. Hence, real estate units must be connected to one another in the same tax base through the national ID number of the taxpayer, thereby reinstating the tax in-kind that is imposed on the real estate unit rather than the individual, removing obstacles that come with having to investigate residences. Of course, this requires the completion of the database. There is another issue, however, which is that real estate companies still benefit from the tax exemption limit set for housing units before their sale. Distinguishing between corporations and individuals can solve this issue, thereby ensuring the exemption limit will not be applied to companies that own real estate units.

There is also a need to prepare and publish a price guide in order to maintain the transparency of the valuation process and reduce the burden of complaints and appeals. The guide also needs to be reissued regularly to keep up with changes in the real estate market. This process can be made easy through technological innovations that increase accuracy, transparency and justice. As the system develops, there should be an ability to reduce the frequency of the valuation process which currently takes place every five years (as stated in the current law). This would result in a more accurate and equitable process. A unit tasked with resolving disputes and responding to appeals within a determined timeframe (a maximum of one year) should also be established. Additionally, exemptions can be replaced by a tax credit system, as a way to disclose the beneficiaries and value of exemptions.

As for unused land, the Supreme Constitutional Court exempted unused land that does not generate income from taxes in a 1993 ruling.[38] But with the 2014 Constitution, which includes an explicit article on prioritizing social justice, there arose a necessity to study the possibility of collecting tax on unused land for two reasons. First, even if the land does not generate income, it still has an economic value, is still treated as a store of value and a type of wealth, and can still be used for speculation. For land to be unused reduces the availability of land for productive investment and for residence, which ultimately contributes to the creation of price bubbles that are economically unjustified. Second, exempting unused land from taxes creates an incentive to not use it, reducing the benefits of land use and construction.

36- Richard M. Bird and Naomi E. Slack, *International Handbook of Land and Property Taxation* (Northamption, MA: Edward Elgar, 2004), 14-16

37- Spouses and unmarried sons and daughters

38- The Supreme Constitutional Court verdict in case number 5 for judicial year 10 in session of 19 June 1993. See: http://sc-court.gov.eg/SCC/faces/Portal_Pages/PortalHome.jspx?_adf.ctrl-state=19y500j6us_120.

3. Inheritance and Gifts Tax

Egypt abolished the inheritance tax in 1996 before the tax was ruled to be unconstitutional in 1998.[39] However, it can be reinstated by substituting the estate tax with a comprehensive inheritance tax40 to tackle the issue of inheritance inequality. An inheritance tax is more equitable than the estate tax because it is affected by the distribution of the tax burden on heirs individually and changes depending on the number of heirs rather than by the size of the estate.[41]

This proposition involves a tax exemption limit of US$2 million on all types of inheritance and gifts. In the case of a larger inheritance, the levied tax is calculated at a rate equivalent to the income tax plus an extra 15 percent on the inheritance beneficiary. This calculation would come after the inheritance is included in the beneficiary's tax base. However, for Egypt, it would be necessary to choose rates to reflect domestic conditions, especially amid the absence of a progressive income tax, indicating that the extra rate imposed on inheritance beneficiaries should be progressive.

The comprehensive inheritance tax would combine benefits from two different types of taxes: an accessions tax, which is payable according to the size of the total estate before its distribution among heirs and before it is included in the tax base of the heir, and an inclusion tax, which includes the inheritance in the tax base and is considered a taxable income. The comprehensive inheritance tax would combine the two forms and determine the tax rate according to the size of inheritance and income. It would also improve equitability as well as economic benefits and efficiency, because it would calculate the ability to pay taxes with precision, as it would provide information on non-financial assets. Moreover, the inheritance tax would encourage the use of talent as opposed to dependence on wealth transfers. The exemption limit guarantees a minimum level of insurance and economic support for families of the lower income brackets. Additionally, the tax would be simpler, more transparent and democratic, because it would focus on individuals. The comprehensive inheritance tax also would include a duty on gifts to prevent inheritance transfer through other means.

This proposal can be compared to the last inheritance tax applied in Egypt (Law 228/1989), which was abolished in 1996. The 1989 tax was imposed on all types of inheritance and gifts (given in the year prior to a person's death), which guaranteed that inheritance does not fall outside the tax system. Exempted from this tax is the family house and/or any houses or furniture or private property. It also included an exemption limit of LE30,000 for spouses and children, as well as LE15,000 for siblings. Tax rates on first degree relatives were imposed according to the following brackets: a tax rate of 3 percent for the inheritance bracket up to LE10,000, 5 percent for the LE30,000 bracket, 7 percent for the LE60,000 bracket, 10 percent for the LE90,000 bracket, and 15 percent for the bracket composed of those receiving more than LE90,000.

As this tax was appropriately progressive, it can be reinstated, but it should link inheritance tax rates to income tax rates and include inheritance in the tax base, as the benefits of the inheritance tax lie in the increased public benefit and equitable distribution of income, not just the size of the inheritance.

When reinstating the inheritance tax in the new proposed tax system, it would be important to adjust the exemption limit according to inflation rates, calculated at 550 percent since 1996. This indicates that the exemption limit should rise from LE30,000 for spouses and children to LE165,000 and LE82,500 for siblings instead of LE15,000. This proposal would change the tax system. Instead of a progressive tax ranging from 3 percent to 15 percent, the tax would

39- The Supreme Constitutional Court verdict in case number 28 for judicial year 15, in the session of 5 December 1998. See: http://sccourt.gov.eg/SCC/faces/Portal_Pages/PortalHome.jspx?_adf.ctrl-state=19y500j6us_102.

40- Lily L. Batchelder, "What Should Society Expect from Heirs? A Proposal for a Comprehensive Inheritance Tax," *Tax Law Review 63*, no. 1 (2009): 36–38, https://doi.org/10.2139/ssrn.1274466.

41- The difference between the inheritance tax and the estate tax is that the latter is the total value of a deceased person›s money and property and is paid out of the decedent›s assets before any distribution to beneficiaries while the former is collected after the inheritance is distributed among the heirs.

be equivalent to income tax payable by citizens plus an additional tax rate, as explained earlier, that would range from 1 percent to 5 percent, according to the size of the inheritance. This change is necessary because an equitable and efficient tax must take into consideration the size of the inheritance, as it is a form of wealth transfer, as well as the income level of the heir. Accordingly, inheritance tax rates would range from 23.5 percent to 27.5 percent in total, assuming an income tax cap of 22.5 percent. These rates are acceptable when compared to international rates, as, for instance, the inheritance tax in France is 45 percent. The extra rate is also equivalent to the wealth tax, making it economically and politically legitimate.

4. Proposing Re-categorization of Wealth Taxes in State Budget to Adhere to IMF Standards

Egypt's state budget classifies taxes on revenues from T-bills and treasury bonds, which are a form of income tax, as property tax. Thus, this tax is misplaced, and so are car-licensing fees. This categorization does not adhere to the IMF manual, thus weakening the economic logic for any public policy when it comes to property taxes and misrepresenting its actual revenues. We propose here changing the methodology used in the state budget classification to adhere to the IMF manual and the accompanying definitions.[42]

42- International Monetary Fund, *Government Finance Statistics Manual 2014*, 93-94

Application and Next Steps

There are four aspects through which the conditions and challenges of the proposed taxes can be viewed: political, administrative, legal and economic. From the political aspect, the main and most important condition in implementing a wealth tax is the existence of political will and tools that could translate into public policies that would achieve social objectives in the interest of the majority and the priorities of just development. These objectives cannot be attained unless there are tools for control, accountability and transparency through which public policies can be drafted and executed. The first step in this direction would be to make information on the distribution of wealth available. From the legal aspect, there are two suggestions that require legal and constitutional review: the inheritance tax and the tax on unused land, which were both ruled to be unconstitutional in the 1990s. But the issuance of a new constitution in 2014 opens the door for a reconsideration of the previous rulings, especially after the constitutional articles on social justice were amended. The changed constitutional reality and the different economic relations can work as a legal basis for reconsidering the reinstatement of both taxes. From an economic aspect, there could be a concern over the impact of a wealth tax on the informality of economic and financial transactions. However, if we look at informality from an institutional perspective rather than only from a tax policy perspective, we find that the more institutions are efficient and depicted with integrity, the less informality there is. From the administrative and institutional aspect, the existence of powerful, developed tax and auditing authorities that can attain tax objectives is a necessary condition. This involves improving the institutional abilities through a program that would improve skills with the participation of employees at the tax authority, to allow them to benefit from their experience and to take their demands into consideration. Based on these challenges and realities in the Egyptian context, we suggest the order of steps to be taken toward implementing the proposed policies to be as follows:

1. Amending the Real Estate Tax

- Amend the article concerning the exemption limit on primary housing units, which allows for preferential treatment, and apply the exemption limit to all houses, in order to reduce the means of evasion.

- Amend the laws concerning the methods and criteria for valuation of real estate and land, as well as develop a more transparent and accurate system to reduce the role of random estimates (using the experience of the valuation system which was proposed when the tax was first introduced). Estimates must also be linked to property prices and must change with more frequency to facilitate the valuation process.

- Establish a resolution unit to receive complaints resulting from the exemption within a specific time frame and based on specific and fair evaluation criteria.

- Complete the establishment of a database and inspect all units. Connect each residential unit for a financier (taxpayer) in the same tax base through the financier's national ID.

- Grant the exemption threshold to individuals, but not corporations. Replace exemptions on some real estate types with tax credits to improve tax transparency,43 and abolish exemptions on unused land.

2. Reforming the Tax Authority

- Establish a committee to reform the tax authority. The committee should be representative of employees, as well as the most important stakeholders from the government, legislative body and civil society, to carry out a comprehensive assessment of the tax system and propose amendments, reforms and criteria for evaluating the reform process. The design of the reform plan must be based on the BEPS and AEOI guidelines.

- Establish a Sovereign Resources Authority that brings together the tax authority, the Real Estate Tax Authority and the customs authority under one umbrella. The new authority would supervise the operations of each department separately, regulate reform, and contribute to the exchange of databases and unifying measures.

43- Ibid., 12; 23-24

3. Preventing Tax Evasion and Avoidance

- Identify the most important laws and administrative obstacles to the implementation of BEPS guidelines, especially with regard to the confidentiality of bank accounts.
- Abolish the laws on the confidentiality of bank accounts, and activate laws granting tax authorities access to information (Article 59 of Law 53/2014).
- Implement BEPS and AEOI guidelines, especially the country-by-country reporting, in order to design an information exchange system in accordance with accounting and administrative standards. Develop corporate and fund ownership records to identify users abroad, and create a list of countries classified as tax havens in order to monitor companies operating in these countries, as well as to combat profit movement.
- Restore and implement the wealth indicators law as a first step toward disclosing the wealth of citizens when applying the wealth tax.

4. Regulation and Availability of Data

- Make available official data by calculating the size and distribution of wealth within either the Household Income, Expenditure, and Consumption Survey or through the Household Balance Sheet Data, which lays out in detail the size of assets for each household, according to their socioeconomic status.
- Amend the general budget presentation system to conform to international standards, especially with respect to property taxes in order to calculate its size with precision.
- Calculate the tax gap and its costs as a means to assess reform efforts.

5. Introducing Taxes

- Recover and design an inheritance tax, so that the taxation is progressive according to the size of the whole inheritance, as well as the heir's total income.
- Apply a periodic progressive tax on wealth that starts at 1 percent for those whose net worth exceeds US$1 million (the main segment of people that make up the top wealth brackets) and reaches 5 percent for those whose net worth exceeds $1 billion.

Recommendations

There is a need for a comprehensive fiscal policy to address the crisis of extreme inequality in the distribution of wealth and income, due to its undeniable social, economic, and political implications. There is a link between economic crises and inequality. This link is often the result of: capital flight, the rise in turmoil caused by speculation and poor capital productivity, and the resulting poor human capital productivity.

In addition, there are social and political implications to the rise of inequality in other aspects of life, such as in education opportunities. There is also a rise in political instability and social tensions that result from a widening class gap that turn society into isolated islands. Hence, the wealth redistribution policies are a form of necessary remedy to deal with all the problems that result from the concentration of wealth.

There are calls to impose a one-time wealth tax, given it would generate revenue that can be channelled to solve the public debt crisis. The IMF adopts this proposal when speaking about the deficit in developed countries.[44] Such a tax could have positive effects in that it would abandon some austerity policies, and it could also limit (but not prevent) the rapid rise of inequality and increases in the wealth of the upper classes.

In the context of Egypt, former CEO of EFG Hermes Hassan Heikal proposed the "Tahrir Square Tax," a one-time global wealth tax of 10-20 percent for individuals with a wealth of more than US$10 million, predicting it would generate revenue of up to $5 trillion.[45] According to the IMF, the main advantage of a one-time tax is that it would not have a significant effect on savings and investment rates.

In contrast, Thomas Piketty proposes a progressive upward tax on capital, arguing that it is better for the tax to be distributed over long periods, so it can be set to be consistent with capital gains taxes each year, thereby balancing the wealth tax and income tax.

Thus, Piketty prefers to impose the estate tax, for example, over a longer period, not once after death. The most important argument here is that the more regular the tax is, the lower the rates can be, resulting in less impact on savings. However, it would generate significant revenue over a long period, whereas a one-time tax would require a very high rate to generate an acceptable level of revenue.[46]

In principle, a wealth tax would be legitimate and rational. The debate then would turn to the timing, regularity and sustainability of the tax. The choice between a one time tax or a regular tax would depend on the main objectives of the tax: If the main objective is to curb inequality and regulate wealth concentration patterns, it is would be preferred to adopt a regular tax. But if the main objective is to improve state financials, the choice of a one time tax is acceptable.

It can also be noted that a wealth tax requires the institutional capacity to gather precise information about property and share information among banks, individuals and governments, as well as the ability to measure the market value of the assets on which the tax is based. This can be summarized by setting specific criteria for selecting either scenario. The choice depends on the main objectives of the tax: If the primary objective is to reduce inequality and control patterns of concentration of wealth, it would be better to have a regular tax. Meanwhile, if the main objective is to improve the financial situation of the state, then the one-time tax may be preferred.

Therefore, we call for a comprehensive and regular wealth tax to combat the rapid rise in inequality and poor distribution of wealth and income. The first practical steps to achieve this policy are the reform of existing taxes – the most important of which is the real estate tax and the restoration of the inheritance tax – as well as working to overcome the legal obsta-

44- Fiscal Monitor, *Taxing Times*, 39

45- Hassan Heikal, "A Tweet from Tahrir Square – Time to Tax the Rich," *Financial Times,* November 22, 2011, https://www.ft.com/content/f39679f4-1433-11e1-b07b-00144feabdc0.

46- Piketty and Goldhammer, *Capital in the Twenty-First Century*, 526-527

cles facing the wealth tax. Imposing a wealth tax cannot be carried out without the basic administrative conditions necessary to combat tax avoidance and evasion, especially modern means of avoidance and evasion localized in tax havens and the modification of the state budget's tabulation and drafting process.

Finally, it may be useful within the framework of combating inequality, boosting economic growth and assuring the taxes have political legitimacy across a society to direct tax revenues directly to the education and health budget through the establishment of a fund aimed at raising the capacity of human resources with the revenues of the wealth tax. Resources from rentier activities associated with the concentration of wealth would thus be directed to the economic and social rights of citizens. Although, this proposal might face legal challenges due to the comprehensive principle in the state budget – the rule that disallows allocating revenues to specific expenditures – there is still a political obligation to raise expenditure on social investments which would contribute to mitigating resistance to these policies.

Appendices

Appendix 1: Progress of the upper percentile and the upper decile's share of the total wealth in Egypt between 2000 and 2014

Year	Total wealth ($bn)	Upper percentile share of wealth (%)	Upper percentile wealth ($bn)	Change in upper percentile wealth	Upper decile share of wealth (%)	Upper decile wealth ($bn)	Change in upper decile wealth	Total change in wealth	GDP per capita annual growth
2000	258	32.3	83.334		61	157.38			3.48
2001	267	33	88.11	6%	61.5	164.205	4%	3%	1.65
2002	274	33.7	92.338	5%	62.1	170.154	4%	3%	0.48
2003	298	34.5	102.81	11%	62.7	186.846	10%	9%	1.28
2004	271	35.3	95.663	-7%	63.4	171.814	-8%	-9%	2.18
2005	261	36.1	94.221	-2%	64.1	167.301	-3%	-4%	2.59
2006	328	36.9	121.032	28%	64.7	212.216	27%	26%	4.98
2007	456	37.7	171.912	42%	65.3	297.768	40%	39%	5.25
2008	393	38.7	152.091	-12%	66.1	259.773	-13%	-14%	5.29
2009	461	40.3	185.783	22%	67.3	310.253	19%	17%	2.78
2010	510	42	214.2	15%	68.6	349.86	13%	11%	3.09
2011	417	43.7	182.229	-15%	69.8	291.066	-17%	-18%	-0.31
2012	418	45.6	190.608	5%	71.2	297.616	2%	0%	-0.04
2013	392	46.5	182.28	-4%	71.8	281.456	-5%	-6%	-0.17
2014	390	48.5	189.15	4%	73.3	285.87	2%	-1%	-0.01
2015			Average	7%		Average	5%	4%	2.17

Calculations are based on the following source: Credit Suisse, Global Wealth Databook 2014, pp. 34-90; 125-126

Appendix 2: Expected revenue when applying Thomas Piketty's proposed wealth tax scenario on Egypt's wealth brackets

Wealth brackets ($)	No. of individuals (2016)	Min wealth ($mn)	Max wealth ($mn)	Tax rate (%)	Min. tax revenues ($mn)	Max. tax revenues ($mn)
1 - 5 mn	17,324	17,324	86,620	1	173	866
5 - 10 mn	1,782	8,910	17,820	2	178	356
10 - 50 mn	1,166	11,660	58,300	3	350	1,749
50 - 100 mn	121	6,050	12,100	4	242	484
100 - 500 mn	83	8,300	41,500	6	498	2,490
500 mn - 1 bn	8	4,000	8,000	8	320	640
Above 1 bn	7	7,000	>7,000	10	700	>700
Total	20,491	63,244	224,340	Total	2,461	>7,286
				Share in GDP	1%	2%
				In EGP $1 = 8.86 (October 2016)	21.813 billion EGP	> 64.569 billion EGP

Source of data on distribution of wealth and number of individuals: Credit Suisse, Global Wealth Databook (2016), pp. 117. The remaining data was calculated by the researcher.

Appendix 3: Expected wealth tax revenue according to the scenario suggested by the paper

Wealth brackets in $	No. of individuals (2016)	Min. wealth ($mn)	Max. wealth ($mn	Tax rate (%)	Min. tax revenues ($mn)	Max. tax revenues ($mn)	
1 - 5 mn	17,324	17,324	86,620	1	173	866	
5 - 10 mn	1,782	8,910	17,820	1.5	134	267	
10 - 50 mn	1,166	11,660	58,300	2	233	1,166	
50 - 100 mn	121	6,050	12,100	2.5	151	303	
100 - 500 mn	83	8,300	41,500	3	249	1,245	
500 mn - 1 bn	8	4,000	8,000	4	160	320	
> 1 bn	7	7,000	>7,000	5	350	>350	
Total	20,491	63,244	224,340	Total	1,450	>4867	
				Share of GDP	0%	1%	Average
					12,853.73	43,134.08	27,993.90

Appendix 4: Proposal for the tabulation of the property tax rate in the state budget in accordance with International Monetary Fund classifications.

Code	Clause	Description	Clause in proposed budget
113	Property taxes	«are taxes paid on the use, ownership and transfer of wealth. The tax can be imposed regularly, once or when ownership is transferred." The tax is divided into five types.	Property taxes
1131	Regular taxes on non-transferable properties	A regular tax on the use or ownership of non-transferable taxes, such as land, real estate and buildings, that can be imposed on owners, renters or both. This tax is a percentage of the real estate according to its rent value, selling price, capital return, and other criteria, such as its size and neighborhood.	Real estate tax Land tax
1132	Regular taxes on net wealth	Net wealth is defined as the total transferable and non-transferable properties after deducting liabilities.	Regular taxes on net wealth
1133	Estate, inheritance and gifts tax	"Taxes on the transfer of properties after death and gifts among family members which are often used as a way of avoiding or reducing taxes. This tax includes two types: An estate tax which is determined according to the total size of the estate, and an inheritance tax which is deducted from the total amount of money inherited by the beneficiaries.	Inheritance and grants taxes
1135	Capital duty	Taxes on the value of assets and the net wealth owned by institutions which are irregularly imposed, especially at exceptional times. It can be paid by households or companies. It is used for expenditure in emergencies or for the redistribution of wealth.	None
1136	Other taxes on properties	All taxes on transferable and non-transferable taxes should be included under this clause, including personal property, jewelry, cattle and other indicators of wealth.	None

Taxes not considered property taxes:

111	Income and capital gains taxes	e.g. taxes on t-bills and government bond returns (as they are considered income taxes)	
1145	Sales and services taxes	e.g. car license fees	

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