



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

ARAB REPUBLIC OF EGYPT

Egyptian Tax Authority: Maintaining Momentum in the Implementation of the Medium-Term Revenue Strategy

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High-Level Summary Technical Assistance Report Fiscal Affairs Department (FAD)

Arab Republic of Egypt

Egyptian Tax Authority: Maintaining Momentum in the Implementation of the Medium-Term Revenue Strategy (MTRS) ¹

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: The Egyptian Tax Administration (ETA) is undergoing a significant transformation within the framework of the MTRS. This summary provides an overview of ETA's progress in implementing the MTRS tax administration initiatives and highlights priority areas for future action. The report focused on key considerations to maintain reform momentum in tax administration under the MTRS in the areas of governance arrangements, organizational structure, human resource management, digitalization, and risk management. The report also contains a mid-term capacity development plan with identified priority areas to further support implementation of the MTRS in the area of tax administration.

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¹ The MTRS concept was introduced in a report to the G20 on "Enhancing the Effectiveness of External Support in Building Tax Capacity in Developing Countries," prepared by the Platform for Collaboration on Tax (IMF, OECD, UN and WBG) for the July 2016 G20 Finance Ministers meeting—see the report in the following link: <https://www.imf.org/en/Publications/Policy-Papers/Issues/2016/12/31/Enhancing-the-Effectiveness-of-External-Support-in-Building-Tax-Capacity-in-Developing-PP5059>.

Background

In response to a request by the Minister of Finance for capacity development (CD) in the Medium-Term Revenue Strategy (MTRS) implementation process, an IMF Fiscal Affairs Department (FAD)/METAC (Middle East Regional Technical Assistance Center) mission team visited Cairo, Egypt during the period July 30 - August 10, 2023, to review progress in the implementation of the MTRS initiatives for the Egyptian Tax Authority (ETA) and to provide further advice on priority reforms.

Egypt's MTRS was formulated by the Ministry of Finance (MOF) with IMF support and endorsed by the Egyptian Council of Ministers on December 31, 2020. Given its macro criticality, implementation of the MTRS is reflected in IMF's surveillance and program activities. The IMF has been asked by the MOF to take a strategic leadership advisor role in the MTRS implementation process. Based on this request the IMF has deployed an intensive four-year Swiss Secretariat for Economic Affairs (SECO)-funded CD program in tax policy, legislation and revenue administration to assist with the successful implementation of the MTRS. Along with close assistance provided to the MOF, the revenue agencies to be supported are ETA, the Egyptian Customs and Real Estate Tax Authorities.

Summary of Findings

Significant progress has been made by ETA in the execution of the MTRS program, particularly in re-designing of the organizational structure and digitalization. The modernization of ETA's digital systems is proceeding apace with 16-modules of the Integrated Tax Core System (ITCS) being rolled-out in major tax offices, and three additional systems (Electronic-Invoicing, Electronic-Receipt, and Payroll Unified System) being launched. ETA will now have an opportunity to exploit data collected from the ITCS and other systems to identify new strategies to improve taxpayer compliance and the delivery of taxpayer services.

Following the gradual roll-out of the new ITCS and the integration of the administration of both Value Added Tax (VAT) and Income Tax, a new ETA organizational structure, based on core tax administration functions, is currently under implementation. The re-designed structure involves a major transformation of the headquarters and includes a complex reform of the ETA regional office network.

A high-level roadmap for delivery of a Human Resource (HR) strategy has been developed with FAD support. Workforce planning will be critical if ETA is to significantly reconfigure its workforce to support its future business operations.

Summary of Recommendations

With the new IT systems implementation proceeding, ensuring quality of taxpayer data and building ETA's analytical capacity must now be the highest priority to support compliance risk management (CRM) implementation. To improve awareness of CRM concepts, senior managers responsible for core functions, should be given access to training programs to help bring CRM-based strategies to fruition. As large taxpayers present unique compliance risks because of their complex structures and transactions, special focus on addressing those risks is needed.

The development of an ETA HR strategy and a blueprint for further reform of the ETA's field office network over the longer term need to be initiated under the umbrella of the MTRS implementation. With the continued roll-out of e-services for taxpayers, a new role for local offices needs to be considered by exploring the opportunities for office specializations in complex roles (audit, appeals, debt collection)

The governance structure for the implementation of the MTRS needs to be further strengthened by establishing a ministerial Steering Committee in the MOF overseeing MTRS implementation, supported by a dedicated Program Management Office coordinating the MTRS activities across involved parties.

In response to growing concerns about the costs and potential abuse of preferential tax regimes in Free and Special Zones, steps should be taken to capture data related to the tax expenditures, and registered entities' compliance with tax law needs to be ensured.

A mid-term IMF CD plan, supporting further implementation of priority tax administration reforms and elaborated in the report, has been proposed to help maintain the MTRS' momentum.