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### 1% Corona Tax on Public Employees' Salaries in Egypt: How Fair is it?

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## 1% Corona Tax on Public Employees' Salaries in Egypt: How Fair is it?

No doubt the COVID-19 pandemic has taken a toll on all governments worldwide. Public resources are naturally limited, and with economic activities slowing down, public budgetary pressures escalate. Governments started looking out for new sources of funds.

Some have managed to convince international funding agencies to give them loans. Some sought out grants from international development organizations. Citizens and civil society organizations were encouraged to donate to special funds created for alleviating the impact of the pandemic. Additionally, governments intensified their tax collection efforts and devised and imposed new taxes.

In Egypt a 1% tax, popularly referred to as the Corona tax and lately approved by parliament in July 2020, was imposed on all public and private sector employees' net salaries over the fiscal year 2020-2021. The 1% tax covers all employees whose salaries exceed 2000 EGP per month (approximately the equivalent of \$125) and there is a 0.5% tax on all net pensions received. The collected resources were placed in a Pandemics and Crises Alleviation Fund at the Central Bank of Egypt, and will be used mainly for sustaining and upgrading healthcare services, for medical research and for aiding sectors, organizations and citizens negatively impacted by the pandemic. The question is: **Is this really fair? The public employees in Egypt are already severely underpaid. Have other countries done the same?**

On examining whether other countries have imposed "Corona taxes" or introduced pay cuts to their public employees, we found the following:

- In **India**, many states imposed a higher tax on liquor during the Corona virus lockdown, with Delhi state imposing a 70% additional tax per bottle referred to as the Corona fee.
- **The Netherlands** allowed all businesses facing difficulties a tax deferral period of three months due to the Corona pandemic.
- **Germany** passed a tax relief law in May 2020 in response to the Corona pandemic allowing for a limited period deduction in the Value Added Tax (VAT) rates, especially for the restaurant and catering services.
- **The United Kingdom** has given out pay raises to over one million public employees most involved in fighting the pandemic. This included doctors, nurses and teachers.
- **New Zealand** announced its intention to implement a temporary one year "pay restraint" (not reduction), applicable only to its senior staff in government. This means that no raises will be allowed and senior staff will be asked for voluntary donations during the crisis.
- **Paraguay and Uruguay** have announced their intention to implement 10-20% pay cuts in public employees' compensation during the pandemic. In both countries, the cuts will target the "better paid" employees and those whose salaries are at least five times the minimum pay.

In a brief note by the IMF in 2020, discussing how countries "reshuffle spending in a crisis" it was mentioned how several countries in the past, when facing crises, have implemented temporary pay cuts, instead of resorting to a reduction in the number of public employees. Several recommendations have been placed on the table by the IMF for governments intending to implement short-term compensation cuts. First, that that these cuts should be progressive; that there should be a clear exit plan; that certain segments of public employees directly working to combat the crisis, such as doctors and nurses, should be exempted from the cuts; and finally, that there should be maximum transparency in how the collected funds will be used.

We have learnt that "fairness" of the taxation system is one important goal. Drawing on other countries' experiences, and by applying the above guidelines on the 1% Corona tax in Egypt, we find that it defies the recommendations of the IMF in more than one respect and is lacking in the "fairness" requirement:

- In general, the more progressive the taxes are, the fairer they are. The Egypt Corona Tax is not progressive. It is a flat rate imposed on all similarly.
- Taxes should exempt vulnerable groups—including in the pool of eligible tax payers public sector employees who are already underpaid, earning \$125 per month, and trying to make ends meet, plus old pensioners who are at high risk of contacting the pandemic, does not seem very fair.
- The tax allows for exemption of employees most hard hit by the pandemic, such as those working in the tourism sector. However, there is no mention of exemptions to the doctors and nurses, also hard hit by the pandemic.
- For the exit plan, the decree mentions a maximum of one year, but this can be renewed with Parliament's approval.
- As for the transparency regarding the usage of the collected funds, there are a number of broad categories mentioned on how the funds will be spent, but no clear way for citizens to be able to keep track.

Finally, implementing taxes, even 1 %, on low paid public employees and pensioners, should have been a last resort, and should have been preceded by an overall plan for rationalization of government expenditures nationwide. **There is no need to give additional painful blows to the underprivileged during a time of crisis and panic.**