

The Real Estate Taxation Manifesto

The first known system of taxation was in Ancient Egypt around 3000 BC - 2800 BC in the first dynasty of the Old Kingdom. When the crop comes in, fifth of it is given to the Pharaoh. The other four-fifths you may keep as seed for the fields and as food for yourselves and your households and your children.

During the dark ages of Europe, nobility were supported by taxes from the poor. The tax ratio would vary according to the needs of the ruling class. For example, during the crusades, Europe was burdened with taxes to finance this military campaigns.

In the modern History, the philosophy of taxation changed to support the poor, the disabled, or the retired. Taxes proceeds are used to fund economic infrastructure, social welfare, public services, and military expenditures. These services can include education systems, health care systems, pensions for the elderly, unemployment benefits, and public transportation.

Property tax or real estate tax is a prominent type of taxation. Since the dawn of civilization, there is evidence of their use in ancient Egypt, Persia and China. Such taxation focused on the land, as its agricultural value. However, taxes based on the property itself was first fashioned in England.

The Egyptian government is suffering from severe budget deficit for sometimes now. One of the techniques that can be used to increase the national income in any country is to re-shape

its taxation system. Following this ideology, last year the real estate taxation system –that was first issued in the year of 1936- was amended.

For a better understanding of this new amendment, there are three basic questions to ask:

- Which real estate units are subjected to this law?
- Who is the person liable to pay this tax?
- How to calculate the amount of the tax payment?

First, units subjected to this law are each and every unit with a separate electricity meter, and of a market value of 500,000 Egyptian pounds or of an annual rental value of 6000 Egyptian pounds or more. This includes all types of residential units; apartments, chalet, villas, and houses, commercial unites; offices, stores, and parking area, and finally, billboards and mobile networks antenna on rooftops as well.

It is important here to mention that in the case of a building with multiple unites, normally each unit is dealt with separately. However, if the whole building –even if it has several units- has only one electricity meter, then it is dealt with as one entity.

Second, the person eligible to make this payment is the owner of the property. Nevertheless, anyone who legally represents him/her can make the payment.

If the unit is rented, the tenant may pay the tax given that the amount will be deducted from the annual rental

value.

Third, the equation of calculating this tax is really complicated, as many factors are evolved. it start with the capital value of the unit which is 60% of the market value. This value is then used to calculate the rental value, which is 3% of the capital value. Have we reached the rental value, an amount of 6,000 Egyptian Pounds of the rental value are exempted. Finally, 30% are deductible for maintenance. as well. Out of the rest of the rental value figure 10% is the annual real estate tax payment due.

For further clarification, for a unit of a market value of 500,000 EGP, the annual real estate tax payable will be as follows:

$$\begin{aligned} \text{Capital value} &= (\text{Market Value} * 0.6) = (500,000 * 0.6) = 300,000 \text{ EGP} \\ \text{Rental Value} &= (\text{Market Value} * 0.6) * 0.03 = (300,000 * 0.03) = 9,000 \text{ EGP} \\ \text{Deductibles for Maintenance} &= \text{Rental Value} * 0.3 = 9,000 * 0.3 = 6,300 \text{ EGP} \\ \text{Taxable Amount} &= \text{Rental Value} - 6,000 = 6,300 - 6,000 = 300 \text{ EGP} \\ \text{Tax Due} &= 300 * 0.1 = 30 \text{ EGP} \end{aligned}$$

The Rental Value is to be re-calculated every five years period. It is important to note that the re-calculated rental value cannot be more than 30% of the previous value for residential units and 45% for commercial ones.

New Rental Value residential \leq (Rental Value * 0.3) + Rental Value
 New Rental Value commercial \leq (Rental Value * 0.45) + Rental Value
 Basically, the corner stone of these lengthy calculations is the market value of any given unit. This value is to be determined according to the neighborhood, the building, the finishing of the unit,

and many other factors.

There are some entities exempted from the real estate tax such as NGO's, and worship places.

According to the Minister of Finance Boutros Ghali, by this law the government is trying to cut down the budget deficit by three per cent. Besides, it will encourage the owners of unused units to put them in the market either for rent or for sale. Doing so the supply in the real estate market will increase.

Although succeeding governments have been using different fiscal policies aiming at decreasing the budget deficit, none of these techniques solved the problem permanently. However, they only snooze the problem for some time. Of course the solution is very clear as mentioned ages ago by the Father of Economics; Adam Smith. In his book *The Wealth of Nations* he mentioned that only when the government stops trying to control the economic activities, specialization of labor and the efficient allocation of resources production will increase.



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