

**The Land Tax System in Egypt:
A Descriptive Report
of its Historical, Legal, and
Organizational Aspects**

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PREFACE

This report was prepared as part of the Study, "Strengthening Irrigation Management in Egypt." The Study has been carried out by IIMI and the Ministry of Public Works and Water Resources (MPWWR) with the support of the United States Agency for International Development (USAID).

One key recommendation emerging from IIMI's work is that if the Ministry chooses the single objective of recovering a portion of O&M costs for irrigation operations above the *mesqa*, it could do so by charging a flat rate per *feddan*. The hypothesis is that this could be collected by the authorities collecting land taxes relatively simply.

IIMI commissioned Dr Mohamed Mohieddin to do a modest study of the capability of the land tax commission, to learn whether adding the collection of water service fees is realistic. Dr Mohieddin has given us a brief but clear overview of the history of rural taxation in Egypt and the present legal basis for collecting land taxes; and based on interviews and field observations in three governorates and several central government offices, he has evaluated the effectiveness of the land tax collection system and its suitability for collecting water service fees in future.

His conclusion is that the system has serious problems which limit its effectiveness. He illustrates this with some data on recovering the costs of tile drainage through this system. His recommendation is that some other means be considered if the Government goes ahead in future with a program of water service cost sharing, perhaps by creating a unit within the Ministry itself.

The Study is not definitive -- it was meant to be exploratory. However, his data and observations are consistent and credible. Therefore, further work is required on the question of what would be the best mechanism for collecting irrigation service fees in future, if the Government decided to go ahead with this policy.

IIMI is grateful to Dr Mohieddin for a job well done. IIMI is also grateful to the MPWWR and to USAID for their support. Dr Mohieddin has acknowledged the assistance of several individuals and we add our thanks to them as well.

Douglas J Merrey
Egypt Project Team Leader

Acknowledgement

The author of this report would like to express his deep appreciation to The International Irrigation Management Institute (IIMI) for contracting him to undertake this research, which gave him the opportunity to get to know the back stage of a world only vaguely known to him previously. In itself it was an exciting learning experience.

Dr. Fouad El-Shibini was instrumental in facilitating my work at The Drainage Authority. His advice, having confronted problems in accessing macro level data, to focus on the local level helped in easing a lot of personal tension that was building up. Discussions with him and Dr. Abd El-Fattah Metawie helped in focusing my ideas, and directed my attention to areas I could have easily overlooked.

Eng. Yehia Abd El-Aziz, the Chairman of The Drainage Authority generously and understandingly opened a lot of closed doors before me. Eng. Mohsen Abd El-Halim extended a helping hand, and made all his files at The Drainage Authority an open book to me, and made my job a joy.

Dr. Mahmoud Mansour and Mr. Houssein Abd El-Malek facilitated my work through contracts with their relations in the two Upper Egyptian districts. In the Delta my colleague Prof. Mohamed Al-Gazzar devoted almost an entire day to accompanying me to his village and introduced me to key tax personnel in his district.

Thanks also go to all these small mandarins who trusted my intentions and openly talked to me opening my eyes to the significance of matters that appear normal to the uncanny eye.

Finally, I would like to thank Dr. Douglas Merrey for carefully reading the manuscript, making valuable comments and suggesting stylistic changes that enhance its image.

The pitfalls of this report remain, however, my personal responsibility.

Executive Summary

This report is intended as an integral part of a broader study carried out by the International Irrigation Management Institute in collaboration with the Ministry of Public Works and Water Resources, Government of Egypt, and the United States Agency for International Development. The purpose of this report is to describe, analyze, assess, identify and evaluate the procedures, organization as well as the manpower and performance of the Land Tax Collection Agency in Egypt. Its relevance to the broader study stems from the fact that the Government of Egypt is considering the introduction of water service cost sharing for irrigation and other water uses, and the suggestion that this task should be entrusted to the agency responsible for collecting the land tax.

The methodology of this report included an analysis of published legal codes of taxation and irrigation and drainage in Egypt, a reading in secondary historical studies of the history of taxes and their collection in rural Egypt; and to formal interviews with district tax commission mandarins, as well as officials in its central administration office. Furthermore, interviews were held with officials at both The Drainage Authority and The Survey Authority.

This report is divided into four basic sections, in addition to an introduction, a methodology, and a concluding section.

The first of these four sections, the historical, reviews the historical development of land tax in Egypt since the Muslim conquest. Capitalizing on the theory of pre-capitalist economic formations, it argues that since the surplus extracted in such formations assumes a heterogenous character, and that peasants were paying taxes in cash as well as in kind, in addition to corvee that was principally used to combat floods and the construction of canals, it could be deduced that the peasantry was being charged, at least indirectly, for the irrigation water it consumed. As such, irrigation water taxation is not new to the Egyptian countryside. It was, though, never paid for in cash.

The second section of the report deals in details with the current legal context of the land tax in Egypt. It describes the legal stipulations upon which the land tax is estimated. It shows that land tax in Egypt is a direct corporeal annual tax levied on the estimated income - rent - driven from arable land, and that it is not a property tax. Furthermore, it shows that the land tax system is highly biased and unfair to small holders caught in the cycle of traditional crops compared to the tax paid on orchards and essential oils, which are usually grown by rich farmers.

The third section of this study analyzes the organizational and administrative structure and the daily activities of the tax collection commission in three rural districts, two of which are in Upper Egypt, and one in the Delta. It pictures the daily life of the employees in their offices, and the problems they confront in performing their jobs, and how this affects their job performance. Furthermore, it presents the views of the peasantry on the proposed water service charges. Two major conclusions are drawn in this respect: first, the system's efficiency in performing the tasks it is suppose to do is trivial due to jurisdictional problems

related to the subjection of the commissions to the authority of the Ministry of Finance, and that of Local Administration at the same time. Second, the tax masters and employees are not motivated to work, are professionally demoralized, and are undertrained. Factors such as salaries, bonuses, work facilities and general conditions of work, as well as the network of social relationships, are not conducive to a high level of commitment to uphold the regulations and the law.

Finally, the fourth section takes the drainage cost recovery as an example of the inefficiency of the system to perform the tasks it is suppose to be performing. Based on secondary data analysis, it shows that of L.E.1.25 bil. spent on drainage during the past 25 years, only 5.7% have been recovered. The section indicates some of the problems that complicate the collection of dues at the village level, such as the sale of land, and the lack of sufficient drainage tax masters. It is therefore, suggested that the system with its current performance cannot efficiently assume the responsibility for the proposed task of collecting water service charges.

In the concluding section, several alternatives to the collection of water service charges are advanced. The merits and disadvantages of each are discussed. Briefly, these are, to assign the job to the WUAs, to trust it to the land tax commissions, or to the MPWWR. For reasons that are spelled out, the last alternative is preferred, at least temporarily. It is implicitly suggested that such a task may be transferred to the WUAs at a latter point in time. At the same time, the second option is rejected on the ground that it will allow the proposed tax to slip out of the hands of the government as is the case with the other forms of taxations, especially drainage.

INTRODUCTION

The government of Egypt is considering the introduction of water service charges for irrigation and other water uses. An important component of such action is the means for collecting the proposed service charges. It has been suggested that the agency responsible for collecting the land tax could also collect water service charges, assuming that, at least at first, the water service charges would be based on a flat per feddan rate. This suggestion has been made by analogy with the current collection of the tile drainage system installation costs. As such, the efficiency of the agency in collecting tile drainage costs may be used as an indicator to evaluate the capacity of the agency to undertake this task.

The purpose of this paper is to analyze, describe, assess, identify, and evaluate the procedures and organization, as well as the manpower and performance of the land tax collection agency. This is not an easy task. Historical, legal, organizational, as well as socio-political factors deeply crosscut each other to form a highly complicated web. Suffice to say in this respect that since 1935, 39 laws and presidential and ministerial decrees directly concerned with land taxes have been issued (Ghanem 1993: 261-63). This amounts to a new change in the legislation or the procedures of tax collection nearly every one and a half years.

With such "legislative diarrhea" it is extremely difficult for the tax personnel to keep up with the changes, and hence to apply the law in an egalitarian fashion. In a group meeting with tax officers in one district in Middle Upper Egypt, there was severe disagreement regarding the timing on which fruit gardens should be subject to taxes. It turned out that one was not allowing the tax exemption specified by the law (Fieldnotes 23/8/1995). This in turn reflects negatively on the tax payers, who feel that they are being unjustly treated. In a country where tax consciousness is weak, this encourages tax evasion.

For the purpose of this study, the various aspects, i.e., the historical, the organizational, and the legal are analytically separated. Their interaction, however, in reality should not be underestimated or overlooked.

Methodology

This paper is based on empirical fieldwork in three land tax commissions, "*Ma'mouriat Daraib Aqariya*", two of which are located in Middle Upper Egypt, and one in the Delta. Interviews were held with the heads of the three commissions, as well as several paymasters. The interviews took place mostly in the offices of the commissions during working hours, from 8:00 a.m. to 2:00 p.m.. In addition, having discovered that there are some ties between the land tax and income tax commissions, the researcher interviewed the head of an Income Tax Commission in Upper Egypt, as well as several of his employees. Furthermore, meetings were held with two groups of peasants, three and five peasants in Upper Egypt and the Delta respectively.

Ideally, the researcher should have examined government records at the national level. Bureaucracy, in the negative sense of the word, prevented the achievement of this task.

Though the researcher was provided an official letter directed to the head of the Land Tax Commission Central Administration, he was refused cooperation on the ground that it involves access to classified information, and a foreign agency. At the same time, an American USAID team was working on the Land Tax System right next to his office in Cairo Central Commission.

In addition, interviews were held with the Vice Chairman of the General Authority for Drainage, Eng. Yehya Abdel Aziz, and one of his assistants, as well as with the Director of the Land Expropriation Administration at the General Survey Authority. In sum, a mixture of official and unofficial contacts were used to collect the data.

Land Taxes: The Historical Context

The Egyptian villages lived until the nineteenth century as self sufficient units of agricultural production, where the surplus produced by such units was extracted by the central state which was the sole owner of land. Such extraction of surplus was based on a unique system of taxation and corvee.

Since the Muslim Conquest of Egypt, and for almost a millennium, the relationship between land, taxes and the rural community remained little changed. Muslim rulers and jurists declared that most of the arable land is "paying land"¹. Under Muslim rule an individual's possession of land was contingent upon continuous cultivation of it, and payment of its taxes which were collected in cash as well as in kind. Ibn Abdel Hakam (Ibn Abdel Hakam 1922: 152-153) described the mode of peasant landholding and taxation under early Muslim rule. A peasant's share of the tax assessed on his village was determined by the headman and notables, according to the amount of land he held. If someone could not cultivate his land, then it was given to another villager who could. Papyri from this period also show that peasant land - that is, its usufruct - was rented and sold, which was another means by which it was allocated to those with adequate resources to farm it. In the Ottoman period the allocation of land to those with adequate resources to exploit it was accomplished most often by what amounted to the selling, pawning, and rental of usufruct rights in peasant land. The principal of possession of land being contingent on its cultivation and payment of its tax also remained in force, and was inscribed in the Egyptian land codes of the mid-nineteenth century. This principle would be the basis for Mohammed Ali's reassignment of such land from those "unable" to those who were "able" to cultivate it and pay taxes on it (Cuno 1992:19).

Successive regimes administered the land tax (*Kharaj*) in one of three ways. At different time it was collected by officials under central state supervision, in other times it was contracted to tax farmers, or assigned directly to the military. The right to exploit the land was left to the peasants. What was at issue was control of the surplus they produced

¹The Shi'a plus three of the sunni schools of law - the Shafi'is, Malikis and Hanbalis determined that Kharaj land was state owned. In their view, the Kharaj paid by the landholder was defined as rent. The Hanafi school on the other hand, viewed the Kharaj land as milk-property, since the land could be transmitted by inheritance and sold as well. Thus the Kharaj rent (see Cuno 1992: 22-23).

(Ibid).

The Ottomans revived the practice of tax farming, which was provided for in the "*qanunname*" of 1525. Though the word does not appear in it, a tax farm in Egypt came to be called an "*iltizam*". The treasury sold *iltizam* rights at a public auction, and the purchase of these rights entailed a number of duties. A tax farmer (*multazim*) was responsible not only for delivering the tax assessed on his village, but also for seeing to the maintenance of local irrigation works and agricultural prosperity. In addition to the basic tax (*miri*) due the treasury, the *multazim* was permitted to collect an additional amount as his profit, or "*fa'iz*" (Ibid. 27).

In Egyptian society, then, the absence of private property in land constituted a key element of the economy. Egyptian villages at the turn of the nineteenth century were characterized by three main features:

- 1) the communal or collective property of village land, which was periodically reassigned to the peasants;
- 2) the fiscal unity of the village, i.e., the collective responsibility of the village for the payment of taxes; and
- 3) the collective responsibility of the village for the maintenance of irrigation works, and to provide the labor necessary to undertake public work (Baer 1964: 49-76). These features seem to have survived well into the era of Mohamed Ali.

In precapitalist economic systems, the surplus extracted is never homogeneous in character. Rather it assumes the form of cash, kind, as well as corvée labor (Amin 1976: 18-19). Based on this theorem, as well as historical evidence, it could be argued that the peasants were charged for irrigation water through the extraction of their surplus labor via corvée. Linant estimates put the number of men needed annually to construct canals between 1820 and 1831 at about 67,000, in addition to another 400,000 to clean them (Cuno 1992:122). This, however, had not gone without resistance on the part of the peasants (Mohieddin 1978: chapter 1), and led to the leveling and decline in taxes in the later years of Mohamed Ali's rule (Cuno Ibid.123).

By 1825, Mohamed Ali's financial straits induced him to impose another variety of communal tax responsibility, or what was called by foreign observers tax "solidarity". Tax solidarity involved the transfer of an indebted peasant's arrears to a better off neighbor in one of two ways. Initially, it seems, the debt was forced on the latter, to whom the government gave "an obligatory check ... for the amount" on the farmer. Another form of tax solidarity, was the transfer of village land from those unable to cultivate it and pay its taxes to those who are able (Ibid).

In reporting the abolition of this system of tax solidarity in September 1836, Duhamel stated that under it the arrears of villages were forced upon neighboring villages, and the arrears of districts were shifted on to other district, and so on, so that "solidarity extended

It was not until the age of Said Pasha that the collective tax responsibilities were abolished. As for the third characteristic, i.e., corvee, such responsibility continued to exist throughout the age of Ismail, 1863-1879 (Auda 1993: 141). It was only in 1881 that corvee became an individual obligation on Egyptian males. Gradually, it was limited to the reinforcement of dikes and resistance of pests.

Said Pasha, however, introduced a tax innovation whereby a distinction was made in 1854 between *ushuriya* land - pay one tenth of the yield in taxes - and that defined as *Kharajiya*. Generally the former included the privileged estates granted by Mohamed Ali and his successors, which were in effect privately owned. The *ushur* tax rates were much lower than *Kharaj* rates paid on the equivalent quality of land. According to one source, *Kharajiya* land paid 116.2 piasters per *feddan* per annum, while the *Ashuriya* land tax was 34.3 piasters per *feddan* annually (Ghanem 1993: 5-6). It was only in 1896 that the distinction was abolished between the peasants (*Kharaj*) land and the *ushur* land of the rich landlords (Richards 1991: 73).

From this date, the assessment of taxes - based on the result of the cadastral survey of 1895-1912 - , was differentiated only on the basis of the quality of land of the given agricultural basin. This land survey constituted the cornerstone upon which land taxes were assessed from 1912 until the mid 1930s. It is not clear to us, however, how the value of land tax was assessed during this period. The British policy in Egypt with regard to land tax, however, was predicated on the systematic reduction of land tax, to secure the cooperation of its major allies in the country - the big landlords - , and to pacify the peasantry which constituted the backbone of the *Urabi* revolution in 1881 (Richards 1991: 105-106; 108-110).

Land Taxes: The Legal Context

During the second half of the 1930s two successive laws (L. 53/1935, and L. 113/1939) were issued to organize land tax collection. To date, these two laws remain the basic laws governing land tax in Egypt.

The first of these two laws does not deal in any direct way with land taxes. Rather, it has to do with land rent. Yet it serves as a base for the assessment of land tax. Article 1 states "land rent would be estimated every ten years as a prelude to the modification of land taxes. Such estimation of rent should commence at the most three years before the end of each period" (Ghanem op.cit. 18). As such, it appears that land tax in Egypt is a direct corporeal annual tax levied on the estimated income - rent - driven from arable and not merely cultivated land. Furthermore, the tax is proportional to the land rent. It is thus, a tax on income and not on property. This is so because it is the rent that constitutes the tax base.

The central question then is how the rent is determined. Articles 2-5 spell out the workings of this process. Three years before the new tax goes into effect, a committee, "the land survey committee", is formed in each village. The function of this committee is to survey the quality of land in each basin of the village land, and to make sure that the land quality within each basin is equivalent. If it was found that there are differences in land

quality, the basin is further divided into sections, each of which contains land of similar quality regardless of the area of each section. All these processes are recorded in a formal report. Membership of this committee include a representative of the Ministry of Finance, the village mayor or a village sheikh, and a land surveyor.

Once the survey committee has completed its work, another committee, "the estimation committee", assumes the responsibility of estimating the average rent per feddan in a given basin or a section of a basin. This committee has the authority of changing the divisions made by the survey committee whenever it sees proper.

The structure of this committee is made up of a representative of the Ministry of Finance, a representative of the Ministry of Agriculture, a representative of the Survey Authority, two farmers selected by the Ministry of Finance, and the village mayor. The committee is headed by the representative of the Ministry of Finance. A public official announcement posted on the door of the mayor specifies the date the committee will start its deliberation at least fifteen days ahead. Each landowner has the right to attend the committee's meeting in which the estimation of the land rent of the basin in which his land is located is discussed.

The new estimates of rent are publicly announced by being posted on the gate of the governorate, the police stations, and the mayors' homes, after they have been signed by the Minister of Finance. The landlord may appeal the new estimate within thirty days from the date it was officially announced, by registered letter accompanied by a receipt indicating the payment of a fee. The government also retains the right of appealing the estimate within the same period. Another committee made up of a representative of the Ministry of Finance, a judge of inferior court, a representative of the Ministry of Agriculture, and three tax payers who do not own land in the area examine and decide on the appeals. The actual working of this committee includes the survey of the land subject to the appeal, and it follows a majority voting rule in issuing its decisions. The decisions of this committee are final and may not be contested in a court of law.

Since 1935, the value of land rent have been estimated five times. The first time in 1936-38, with a new tax levied in January 1939, the second in 1946-48, with a new tax going into effect as of January 1949. A third land tax was estimated in 1956-58, but did not go into effect until January 1966. This third estimate continued to be effective till the end of December 1978 (Bill of Law no. 41/1978:1995). A hastily conducted new survey and land rent estimate in 1978, formed the basis for the new land rent that went into effect in January 1979 (Report of the Joint Planning and Budget Committees and the Office of Agriculture and Irrigation on the Bill of Law no. 41/1978). However, Law 41/1978 stipulated that the new tax should only be increased by 50% of the newly estimated land rent for the agricultural year 1979, and that the application of the new rent should go into effect in full in the agricultural year of 1980 (Law no. 41/1978, Article 1). The latest estimation of land rent was undertaken in 1986-88, and went into effect as of the first of January 1989. This new estimate of land rent will be governing the assessment of land taxes in Egypt to the turn of the country.

Closely related to the previously analyzed law is the Law no. 113/1939 on land tax. This law takes the value of rent estimated according to the stipulations of Law no. 53/1935,

as the ground rule for the assessment of land tax. For the first time ever in modern Egyptian History, it gives an explicit rule for the proportion of land tax in relation to land rent. Article 3 states "land tax constitutes 14% of the annual rent". It is therefore commonly said that "the rent is seven times the tax", which gives the impression that the tax is the basis on which rent is established, while it is the other way around. For land that becomes arable after the estimation of rent and subsequently taxable, Article 4 stipulates that a rent should be estimated for it according to the rules of Law no. 53/1935. Furthermore, taxes according to Article 5, should be reassessed annually, in cases where public works have led to either an increase or a decrease in the value of its rent.

This law also specifies - by inclusion - the cases of tax exemption. On the one hand, government owned land be it publicly or privately held is not subject to taxes. On the other hand, the following privately owned land categories are also not subject to land tax:

- 1) barns
- 2) land within city's limit upon whose buildings a property tax is levied, unless it is actually cultivated
- 3) dried up land due to low water level, and land designated for woods (Article 6 and 8).

Furthermore, tax exemption is applied in the following cases:

- 1) land damaged due to decertification and sand movements
- 2) land that is no longer arable due to its use for public good
- 3) land no longer cultivable due to seepage from major canals and drains, the Nile, the sea or the lakes
- 4) land that remained uncultivated as a result of the construction of dikes by the Ministry of MPWWR to drain the Nile water from the basins of the Delta and Upper Egypt
- 5) land no longer cultivated due to the drying up of wells or scarcity of rain
- 6) housing areas (land)
- 7) land upon which there are attached buildings belonging to several owners
- 8) fallow land not served with irrigation and drainage, or in need of huge cost to be reclaimed, and
- 9) land left unused due to natural catastrophe, or general disaster or wars (Article 10).

There are no other cases of exemption from the land tax in Law no. 113/1939.

However, in 1953, Law no. 970 was issued aiming at exempting small land holders from taxes. Article 1 stipulated "every tax payer whose land tax does not exceed the sum total of L.E.4 per year is exempted from taxes". It further exempted those who paid less than L.E.20 per year from paying L.E.4 of their taxes. The only exceptions were those who benefitted from the successive land reforms. In 1961, an amendment of this law, Law no. 177/1961, was issued to exempt the beneficiaries of the successive land reforms who were paying less than L.E.4, and not exceeding L.E.20 from paying taxes in accordance with those who benefitted from Law no. 370/1953. The memorandum of Law no. 177 estimated that 150,000 families will benefit from the law, and thus about L.E. 600,00 will end up in the pockets of poor peasants contributing to an improvement in their standard of living.

The above review shows that there has been a considerable relaxation in upholding Law no. 53/1935, and hence in the levying of taxes. If we assume that the rate of increase in tax assessment remained constant between the successive inter-survey periods of 1959-1979 at what it was between 1949-1959, i.e., 24.3% per annum, then this would mean that the treasury lost about 600 million pounds as a result of not reassessing and the postponement of the application of new tax rates in the 1960s and 1970s.

While Law no. 370/1953 and its amendment by Law no. 177/1961 may have been well justified on the ground of social justice, it is not abundantly clear why the 1959 new tax rates did not go into effect until 1966. Most likely, however, this was in harmony with the dominant spirit of the time. In seeking to mobilize the peasantry, Nasser's regime gave primacy to the political over the economic. Furthermore, the 1967 defeat seriously affected the budget. Thus the proposed 1966/68 new tax assessment was never undertaken, with the result that the 1956-58 rent assessment and its concomitant tax of 1959 continued to be enforced for thirteen years, i.e. from 1966 to 1979. It further did not seem reasonable to apply the 1959 rates in 1966 and then change them in 1969.

In 1960 the law of local administration was issued authorizing governorates local councils to charge an additional tax not exceeding 5% of the land tax from the peasants. However, Presidential Decree no. 1652/1963 set this local tax at 15% of the land tax. Three fourths of this tax went to the governorate council, and the remaining one fourth was devoted to the local village councils within each governorate.

Previously, in 1956 a defence tax of 10.5% of the land tax was added to the tax burden of the peasants. In addition, a national security tax at the rate of 25% of the defence tax, was levied in January 1967. In 1968, it was increased to 3.5% of the annual land rent. Finally, in January 1973, Law no. 117/1973, added a progressive *Jehad* tax at the rate of 25 piasters for those who held between three and five feddans, half a pound for those holding between five and ten feddans, and a full pound for each feddan for any amount of land held in excess of ten feddans. The above three types of taxes were canceled by Law no. 157/1981.

Orchards, nurseries, and areas cultivated with essential oils have a special status in the income tax law. In addition to the land tax, they are subject to special provisions according to Law no. 157/1981 and Law no. 187/1993 known as "the Unified Tax Law". Orchards of less than three feddans are exempted from taxes. More than that and up to ten feddans, they pay the land tax from the date the orchard starts producing. The Minister of

Agriculture decrees the necessary period of exemption for each type of orchard. Orchards exceeding ten feddans are subject to two times the land tax.

As for essential oils, they are not subject to tax if the area cultivated does not exceed one feddan. If removed, it is the responsibility of the taxpayer to inform the tax authorities that he no longer is growing them. Nurseries on the other hand, are not subject to any kind of exemption from the moment they are established. In all three cases, a flat rate of 20% is deducted to account for the cost of production. In these cases, the taxpayer may choose to settle his taxes based on account books supported by bills and documents if he maintains such records.

To all the above, all landowners, regardless of the area in their possession, are subject to the social security Law no. 112/1980. This law levies the following taxes:

- 1) 5 pounds annually for each feddan of orchards
- 2) 25 piasters for each arable feddan, and
- 3) 25 piasters for each feddan cultivated with traditional crops.

All the above taxes are paid in two installments, winter and summer, that vary from one governorate to the other. Usually, however, it is synchronized with cropping seasons. Thus the winter payment is due in April or May, and the summer one in September or October of each year.

To sum up what peasants pay in the form of taxes for each feddan, we may classify it into two categories: standard and variable:

- land tax	=	14% of the land rent
- local tax	=	15% of the land tax
- social security	=	25 piasters for each feddan.

Thus if a taxpayer owns a feddan of land with an annual rent of L.E.200 then he pays:

200 x 14 ÷ 100 = L.E. 28 in land tax
and 28 x 15 ÷ 100 = L.E.1.68 in local tax
plus 25 piasters in social security.

This sums up to L.E.29.93 or about 30 pounds of taxes annually. The variable tax is that levied on orchards, nurseries, and essential oils, which means in our example another 30 pounds in the case of nurseries, or essential oils, but not in the case of orchards where areas of less than three feddans are exempted.

Needless to say that such flat rates are highly biased and unfair to small holders who are caught in the cycle of traditional crops with its meager yields compared to orchards or essential oils.

Land Tax: The Organizational and Administrative Context

The land tax division of the Ministry of Finance assumes through its branch in the governorates and their district commissions the responsibility of collecting taxes from the peasants.

A district commission is divided into thirteen different departments or sections, operating under the supervision of the district commissioner. In what follows, a description of each of these departments is provided:

- 1) The *Mukallafat* Department: maintains records of the land holding of each individual in each village within the tax district commission.
- 2) The Revenue Department: maintains records for each privately owned building in residential areas identified by the local council.
- 3) The Sequestration Department: holds records of all administrative sequestrations executed against taxpayers who were delinquent in paying their taxes.
- 4) The Registration Department: maintains records of all incoming or outgoing correspondence with any governmental agency.
- 5) The Collection Department: is responsible for collecting all the governmental dues, and their audit, and forwarding the data on accountancy to the respective departments.
- 6) The Accounting Department: maintains records for each village "*sarrafya*", i.e., tax unit, indicating the amount of taxes levied on it, what has been collected, late dues, decisions on exemption or addition of taxes, and surplus collected-if any.
- 7) The Records Department: keeps all the current records for a period of three to five years, after which they are forwarded to Cairo to be kept in the National Records House at the Citadel for twenty five years.
- 8) The Secretarial Department: responsible for recording requests submitted by the public regarding their taxes.
- 9) The Tax Department: responsible for balancing what has been collected from each individual tax payer against his/her dues, and creating a balance sheet for each village, and finally a balance sheet for the entire commission. It is the largest department within any district commission, employing in some cases nearly 90 tax masters.
- 10) The Legal Department: assumes the responsibility of representing the commission before the courts in all cases filed against or on behalf of the tax division.

- 11) The Investigation Department: collects information on the property of any person indebted to any governmental agency.
- 12) The Security Department: has the duty of securing the buildings.
- 13) The Safe: where money collected by tax masters is kept till delivered to the concerned authorities (Interview with District Commissioner 19/8/95).

The three commissions visited during this study employed 334 employees. The largest of them had 128 employees, the smallest 99, while the one in the middle had 107 employees including 4 custodians. Tax masters, those who collect taxes from farmers, make up the majority of employees in all three commissions. In our largest there were 78 of them or about 61% of the total work force, of whom 45 were land tax masters, 25 specialized in the collection of tile drainage dues and 8 for building revenues. The smallest commission, on the other hand, had a similar number of land tax masters and only 8 for tile drainage. The middle-sized commission had 42 land tax masters, 17 tile drainage dues collectors. As a rule of thumb, there is a land tax master for every village; in a few exceptional cases a tax master may supervise tax collection in two villages. Each tax master is responsible for about 750-800 tax payers. If the village is too big, it is assigned to two tax masters.

The conditions of work at the tax commission are miserable at best. In one commission, the largest, all the employees sat in six small rooms each not exceeding 3x3 meters, for an average of 21.3 employees per room. Given that the commissioner maintains a separate room for himself, the average goes up to 25.6 employees per room. Fortunately the tax masters work in the field, so the average is reduced to only 8.3 employees per room. According to regulations, however, the tax master has to deliver the dues he collected on the 10th, 20th and 30th day of each month, or whenever he collects the sum of L.E.1000.00. In these three days, the office of the commission becomes a real jungle, or at best it looks like a village market. Add to this the public arriving to tend to their affairs with the commission. In practical terms, the number of work days is reduced for the office workers by three days, and the public cannot get any of their affairs, no matter how urgent they are, done during those three days. The commissioner noted "if you had come tomorrow you would have not been able to hear my voice across the desk". Having ventured and went the next day, the 20th, it took me 10-15 minutes to get to his desk. This picture was confirmed in the other two districts with minor variations.

The record keeping is another story: there are records, but ask for one that is two or three years old, and it takes endless time to have access to it. While interviewing the commissioner of the Delta district a peasant stepped in asking for information on the taxes he paid in 1993. It was about 10:00 a.m.. It was almost an hour and half later, when he finally got hold of the record, and an hour later the commissioner signed the document and sealed it for him. Current work documents share the employees' breakfast food and tea spills. What is saved is not far from malice. In one district, an employee stepped into the commissioner's office complaining that an official telephone message from the headquarters at the governorate was stolen from a file she had left on her desk. In another district the director informed us that correspondence sent in the mail from the general income tax commission at the district - just five minutes walking distance - is sometimes lost in the mail.

It appears that it is a standing policy within each commission that the office employees are rotated between the various departments of the commission on a yearly basis. The assumption is that in this way they gain knowledge about the work procedures at each of its departments. Thus, some of those who work in the records department at a given year, go to work for the revenue department in the next. This however, is done in a very arbitrary manner. The decision on who goes where is made by the director, and put into effect, ideally, immediately. No transitional period is allowed, no training course is administered; rather, they learn by experience from their fellow workers. Given the complicated nature of rules and internal procedures within each department, "it takes an endless time to get to know what is exactly expected, I only learn by asking my colleagues whenever I confront a new situation". A tile drainage due collector reported that "I was just assigned to this department a month and a half ago. I have no experience in this field, and I do not know what to do". Objections to new assignments are quite rampant, and the authority of the director is frequently challenged.

What gives the employee the ability to challenge the authority of the director is a surprising reality. The director does not have the authority either to reward or to sanction his employees. This is so since all the employees save the director and his deputy are under the administrative jurisdiction of the Ministry of Local Administration and its governorates' branches. The director and his deputy on the other hand, are employees of the Ministry of Finance. To sanction one of his subjects he would have to write a rather lengthy report and submit it to the headquarters of the governorates' local administration office, which then may or may not put it into action (Fieldnotes 24/8/95).

At the heart of our interest are the tax masters. To start with, they work against all odds. No means of transportation is provided to them to go to their work sites. In addition, no transportation allowance is paid to them, which means that they have to pay for transportation out of their pockets. Their salaries are meager. Of the several tax masters I have talked to, the highest paid had a salary of L.E.235 per month (\$ 70.00) after 23 years of service; another with 18 years of service gets L.E.175 (\$ 51.5); the third's who had two years of experience had a salary of L.E.98 (\$ 29.00). Theoretically, they are suppose to receive bonuses at the rate of 30% of their salaries. However, they charge that the bonuses do not trickle down to them. They are distributed among the top management levels and the employees at the governorate level, and the tax master only gets about 3% in bonuses (Fieldnotes 18, 19, 24, 27/8/95). In other cases, the bonuses are not paid because of the lack of funds in the treasury.

The luckier ones work in a village neighboring to their own, thus saving on the cost of transportation. However, as one of them noted, "everyone in the village is my relative; I find it very difficult to apply the law and execute the sequestration procedures if he is delinquent on payment; I am not supposed to be working here, and should be transferred to another village". As such, it appears that kinship ties cut across bureaucracy and law, making them subsidiary to the existing social structure.

Not surprisingly, the tax masters are not motivated to work and are professionally demoralized. They further compare their situation with that of the tax masters of the "General Income Tax Commissions", where they are, as one master put it, "swimming in money". In the Income Tax Commission, the tax payer comes to the office of the master,

we, on the other hand, have to run after the peasants to make them pay. "We are playing hide and seek with them", one said. "Furthermore, there are no addresses, other than the name of the village and the person. It all depends on the cooperation of the village mayor, or my guide in the village who is not an employee of the commission and I have no authority over him".

Some tax masters fail to uphold the rules. In one case, a tax master was subject to interrogation for not sequestering the properties of those who are delinquent. He was sanctioned by deducting three days of his salary, yet he continues the same policy. Corruption is not out of the picture: one tax master, relatively well off, said that he pays delinquent accounts out of his own money, and then collects them from the peasants. Peasants we have talked to in this village claimed that he charged 25% to 30% interest rate for such activities. The arrangement, however, seems to suit the interests of both parties.

The land tax master holds a two years diploma from "The Institute of Tax Masters", run by the Ministry of Finance. He receives no further on the job training, and if he does, it ends up as a financial burden on him, since he has to go to Cairo for training on an L.E.3.00 allowance per day. By comparison, general income tax masters carry a degree in either law or accounting with a general overall grade of "Good".

The land tax masters in the field collect several kinds of taxes: the land tax "*Mal Amiri*", local council tax, social security, and to date, they continue to collect the delinquent accounts on defence, national security, and the Jihad taxes which were canceled in 1981. In addition, they collect violation fines, sequestered land tax, in addition to taxes on commercial activities. It is interesting to note that this last one is collected on behalf of the General Income Tax Commissions, thus representing an extra load on the tax master. In addition, some of them collect dues on tile drainage.

To conduct his work, the tax master maintains several books: a payment receipts book, an administrative sequestration book, a tax levy book including names, areas, and amounts of taxes due on each individual, and finally, a daily balance book in which he records the amounts collected. In cases of delinquency, the tax master orders the tax payer to pay within 15 days. If he does not respond, a committee made up of the master and two members, one of whom is from the local administration, moves to the premises of the delinquent and executes the sequestration immediately. The debtor himself is hired as a legal guard on the sequestered items. If the debtor does not pay in 15 days, an auction sale is undertaken by the master. Whenever a need for an expert emerges he is hired at the expense of the debtor. If the value of the sale does not cover the tax amount due, a supplementary sequestration is executed. No consideration is given to cases of crop failure or any other circumstances. The argument is that the state does not increase taxes as a result of the increase in the market prices of crops.

The subjective conditions aside, the land tax commissions are sometimes subject to conflicting instructions. For example, the Minister of Finance (the commission is under his ministry in the organizational structure of the state) issues his orders to collect the taxes. On the other hand, the Governor of a given governorate, under whom the commission comes administratively, in certain circumstances, may decree to postpone the collection of taxes for the next year as happened after the flash flood of this year. The commission and the tax

masters find themselves in a limbo: which instructions are to be enforced?!

In such conditions a full collection of tax is never realized. A closer look at how the target is set reveals that it is never achieved in any given year. The proposed target is composed of the following items:

- the tax assessment at a given year,
- plus 50% of the delinquent taxes,
- minus 15% of the surplus collected, if any,
- plus the tax exemption,
- plus Law no. 51/1973 (applied to those owning less than three feddans not cultivated with orchards).

The following example translates the above into a concrete situation. Let us assume that a given village is subject to a total of L.E.70,000 in taxes. It further has a total of L.E.1,000 in delinquency, a tax exemption of L.E.300, L.E.1,000 due under Law no. 51/1973, and a L.E.100 in surplus. Thus its taxes this year will be: 70,000 in taxes

$$\begin{array}{rcl} 1,000 \times 0.50 & = & 500 \text{ in delinquency} \\ 100 \times 0.15 & = & 15 \text{ in surplus} \\ 300 & = & \text{tax exemption} \\ 1,000 & = & \text{Law no. 51} \end{array}$$

$$\begin{array}{l} \text{Thus the taxes equals: } 70,000 + 500 - 15 - 300 - 1,000 = \\ \qquad \qquad \qquad \qquad \qquad \qquad 70,500 - 1,315 = 69,185 \end{array}$$

The three commission heads we have talked to estimated that only 70% - 75% of the set targets are achieved. This only means that next year the amount of delinquent account will increase, and only 50% of it will be included in the tax target. Thus everyone is spinning in a vicious circle. The peasants continue to be indebted to the state, and the state never really attacks the problem at its roots for social and political reasons.

Against this consensus among the three tax commissioners with regard of the efficiency of the system in tax collection, they markedly disagreed with regard to the ability of their commission with regard to collecting water service fees. In one commission, it was argued that this job could be done with no additional work force; in another, it was stated that it could not be done as current staffing is inadequate and that it would require at least 50% more tax masters, given that the technical information is supplied by the MPWWR. At the other extreme there was a total rejection of the idea, "this is the business of the MPWWR, it should create its own organization to undertake this task".

The tax masters on the other hand are more unanimous in their view of the proposition, "we will only do it if there is some direct personal benefit to us". Another master was more concrete: "we used to collect dues on the peasants for the Agricultural Development Bank, in exchange for 2.5%, of which one half of one percent went directly to the tax master. I deliver a thousand pounds to them and they pay me five pounds on the spot".

The peasants on the other hand frowned when the proposed idea was brought to their attention, arguing that they pay more than enough in taxes, and that they have never had to pay the government for water. Counters arguing that they already pay for it in renting and operation of pumps, their response was that the cost does not exceed more than L.E.3.00 per feddan if one owns a pump, and that almost everyone owns a pump. Those who do not - as one lawyer farmer put it - are the exception and you cannot establish a general rule on exceptional cases. Another relatively wealthy landlord with 8 feddans of land, argued that in addition to taxes he is indebted to the bank by about ten thousand pounds. "If you are talking about L.E.70 per feddan per year, that adds up to L.E.560 annually for me. I certainly cannot afford it. The government should look at the cost of living before making such a decision". A small peasant with 2 feddans argued that if he is exempted from land tax, how can he pay for water? A fourth gave a categorical "no" on the ground that it is non-Islamic to sell water, and another stated, "it will only add to the cost of production which will be passed to the consumers, this is so since we will continue also to pay for irrigation operation cost".

Judging by the interviews I have conducted, the observations I have seen, it does not appear to me that the land tax commissions are prepared to carry out such a job. On the one hand, the personnel are not motivated to work, the office space is already overly dense to house more employees, the level of qualification needs substantial upgrading, and the record keeping system certainly needs to be modernized. Furthermore, the system's efficiency to collect the already levied taxes and dues is questionable. The tile drainage experience gives a good illustration of the above.

The Drainage Cost Recovery: is it a Lost Cause?

There are three different agencies involved in the installation and cost recovery of tile drainage. The General Drainage Authority, the Survey Authority, and the Commission of land tax, each of which has a different function.

The General Drainage Authority specifies the priority areas for the installation of tile drainage. In doing so, it depends on the reports of its governorates' offices. In determining the extent of need for tile drainage the Authority uses criteria such as the underground water level, and the complaints of the peasants who ask for the installation of tile drainage. The area then is subject to surveys by the Authority, which based on its studies, determines the priority areas and thus a tile drainage is installed.

Once the project is executed, maps of the area are forwarded to the Survey Authority, which zones the area on maps and then the results of its work including names of owners and their areas are forwarded to the Land Tax Commission to recover the cost of installation.

According to Law no. 12/1984, "the Minister of Finance should issue a decree authorizing the collection of dues on installation at the specified dates for the collection of land tax" (Article 32). The law further stipulates that such dues should be collected within a maximum period of 20 years. The burden of such cost is shouldered on the beholder of the land, be it an owner, a beneficiary, or a tenant. To the total cost of installation, a 10% rate is added to cover the administrative cost.

According to the law, peasants are informed of the dues they owe by the posting of a roster showing the share of each beneficiary in the total cost at the premises of the agricultural cooperative and the police station at the district capital for at least two weeks. Concerned individuals may object to the estimated cost levied on them within thirty days, otherwise it is considered final. A committee made up of the Survey commissioner or his deputy, as acting head, and the membership of the representatives of the Ministry of Agriculture, the agricultural cooperative, a surveyor from the Survey Authority and an irrigation engineer examines the objections. Its decision may be appealed before the court (Article 32).

In addition, the law stipulates that the MPWWR should inform the Land Tax Commission within a period of one year of the date of installation of tile drainage of the land areas where tile was installed in order for the latter to reassess taxes on it (Article 33).

The law is one thing, and the reality is another. According to an accountant of the Land Tax Commission Headquarters in Cairo, "it takes almost five years for such information to be passed to us". At the Survey Authority, this statement was confirmed by the Head of the Sequestration Department who is responsible for surveying the tile drainage area. He argued when questioned about the causes of such delay that "my department is basically concerned with sequestration of land for public projects. I have no specialized teams to do the job. Furthermore, of the score of workers and employees I have here, I can only trust the quality of work done by three to four persons at the most. Everything else, I have to review in details by myself". He further suggested that a separate department entirely devoted to surveying tile drainage should be established to speed up the process.

The ultimate result is that the cost recovery of tile drainage is postponed for several years. Once the information is passed down to the village level, the peasants find themselves in a limbo. They are expected to pay the installments that accumulated over the years. Unable to do so, they may default on payments.

Aggregate level data is suggestive in this regard. Since 1970 and until the end of June 1995, the total cost of tile drainage installation has reached L.E.1.25 bil.. During the same period only about L.E.71.6 mil. or about 5.7% of that cost has been recovered. However, there are regional variations. Systematically, the Delta peasants have paid more than their share when compared to their Upper Egyptian counterparts. Of the total installations, the Delta accounts for 69.8%, but its peasants have paid about 75.4% of what had been recovered. By comparison, installations in Upper Egypt represent 30.1% and account for only 24.6% of the cost recovery (General Drainage Authority 1995).

Despite this poor performance in cost recovery, the available data suggest that there has been some improvement over the past few years though far from satisfactory. For example, data on the temporal distribution of 71.6 mil that was recovered shows that while over the period of 1970-1989, only 21.2% of recoverable was collected from the peasantry, for an average of 1.1% per year. Since 1990, the percentage of cost recovery per year systematically went up from 7.5% in 1990, to 12.3% in 1992, and finally to 18.3% in 1995.

The battle, however, is far from being won. As the life expectancy of the system is wearing thin in areas of early installation, the government has embarked on a process of

renewal and replacement during the past thirteen years. This was undertaken in an area of 231,000 feddans at a cost of L.E.74,239,000. This amounts to an average cost of L.E.321.4 per feddan which peasants in those areas would have to pay. To this must be added an administrative cost of 10%, thus the total per feddan comes up to L.E.353.5 accounting for an average yearly installment of L.E.17.70.

The collection of dues at the village level is further complicated by several factors. On the one hand, surveys suffer from a good deal of inaccuracies. The minutes of the meetings of the Committee on Cost Recovery is full of peasants' complaints regarding the dues they have to pay as a result of allocating to them areas much larger than what they actually hold. On the other hand, the records are not up-dated. Here the sale of land causes problems to the tax master. The tax master operates according to the rosters provided to him by the commission. Once the peasant has sold the land, he is no longer responsible for the dues. The new owner on the other hand argues that the dues are not in his name and refuses to pay. In addition, the number of tax masters devoted to tile drainage cost recovery is very small in each district commission.

In the three commissions I have visited, two of them had 8 tile drainage tax masters, and the other had none. In this case the responsibility is assumed by the land tax masters, but as we have shown earlier, they are not motivated to work. One such tax master was taken by surprise when I asked him if he was collecting dues on tile drainage. He did not know whether his village had tile drainage or not. A peasant attending the meeting confirmed that tile drainage was introduced to the village about five to six years ago. The man was worried. Accompanying me to the district office the next morning, he made sure to ask his boss if he should have been collecting such dues. It turned out that the dues on cost recovery for this village were not yet turned over to the district commission after five years of the installation of tile drainage.

It is important to note here, that the government does not charge any interest on what it spends on drainage. If we accept the official figure of 9 percent inflation per year, and that farmers do not start paying on drainage for five years, then the value of what the government recovers is reduced by about 45%. Extended over 20 years from the moment the peasants start to pay; it means that inflation has reached 180 percent over the entire period. Thus if the government spends L.E.100 on a given plot, it will be worth 225 by the end of the 25 years period. In reality then, even if the peasant is paying the full amount due, he is only paying 44 percent of the full cost at current prices. If extreme estimates of inflation of 25 percent per annum are adopted, then they only pay 16 percent of the actual cost. A middle of the road estimate of the annual rate of inflation at 15 percent means that the government can at best recover only 26 percent of the investment in tile drainage. As shown above, the current cost recovery is far less than any of these figures. One commission head estimated that in his district the proportion recovered does not exceed 2 percent of what is due with regard to tile drainage. One wonders, given these facts, whether the cost of tile drainage cost recovery exceeds the amount collected.

Given all the above, and at the current rate of cost recovery, it appears that it will take another at least 20 years to fully recover the cost of installment of tile drainage in two thirds of the country's land. By that time, the life expectancy of the existing system will be long over due, renewal and replacement will be in order, and the vicious circle will continue. As

such, it appears to me that unless something radical is done about it, this is going to be a lost case.

Concluding Remarks

It is hoped that the above review has clearly shown that the tax and dues collection system is a highly complicated affair. This process is hampered by administrative, organizational as well as political problems, that reflect on the ability of the system to undertake the tasks assigned to it. To add to these tasks, the collection of the proposed water service charges will certainly, in our judgement, not merely magnify the already existing problems, but it will also negatively affect the performance of the system with regards to the responsibilities it currently assumes.

In the light of this fact, it is proposed that one of two alternative forms of collecting water services charges be considered. The first of these approaches capitalizes on Law no. 213/1994, authorizing the establishment of WUAs. The law could be amended to authorize the WUAs to collect such charges as part of the cost of operation, to be delivered to whoever the law would specify as the receiver of the dues. The advantage of such an approach is that it does not create a new bureaucracy in the strict sense of the word. The disadvantage of such a procedure is that WUAs are still a long way from being generalized to cover the entire country. In addition, it may well make WUAs unpopular among the peasantry. Furthermore, it will require a strict enforcement of the single point pumping, which is doubtful.

The second alternative is to establish a new division within either the Ministry of Finance, or the MPWWR that will assume such a responsibility. Putting such a division under the jurisdiction of the Ministry of Finance may imply a lag time in passing the technical information required to assess the charges on every peasant by the Ministry of Finance. It is anticipated that such a lag time will be shorter if the proposed new division were under the jurisdiction of the MPWWR. If worse comes to worst, this responsibility would fall in the lap of the Land Tax Commission at the Ministry of Finance, but this is certainly undesirable in the light of the Ministry's experience in collecting dues on tile drainage.