Are Personal Exemptions Succeeded to Protect Low-Income Families in Egypt From the Negative Effects of COVID-19?

Mohamed Elshawarby
New Cairo Academy, Cairo, Egypt

This paper attempts to investigate the negative effects of the spread of COVID-19 on low-income families in Egypt. Coronavirus spread is measured by "Coronavirus cases" and "Coronavirus deaths" on a daily basis. Besides, it is measured by both "new Coronavirus cases" and "new deaths from Coronavirus", in relation to the population of Egypt. The Egyptian government is taking some measures to reduce the negative effects of COVID-19, including increasing personal exemptions by amending some provisions of the Egyptian Income Tax Law promulgated by Law No. 91 of 2005 to protect low-income families. Of the negative effects of COVID-19, it is one of the most important tax policies to achieve social justice in distributing the tax burden, according to income levels, in a manner that achieves justice and equality. We find that Personal exemptions did not succeed in achieving tax justice by easing the tax burden on the low-income people in society.

Keywords: personal exemptions, low-income families, Egypt, the negative effects, COVID-19

Introduction

The emerge of COVID-19 is one of the biggest challenges facing the world since the end of the Second World War; the World Health Organization announced that the emerging COVID-19 constitutes a health emergency 2020 January 30, and with the increasing severity of the virus and the speed of its spread among many countries and regions on 2020 with an international dimension. And in the world a pandemic has been declared.

The Central Agency for Public Mobilization and Statistics (2020) conducted an important study on a sample of Egyptian families with the aim of identifying the most important effects and problems which resulted from the actions taken to fight the virus Corona is divided into four sections. The first deals with household information about the Corona virus, the second deals with the impact on the practical situation of the employed, the third deals with the effect on changing the pattern of household consumption, and the fourth deals with how families face the negative effects and lack of income, and so it becomes clear to us that we are facing a comprehensive, important and realistic study because it is far from office or theoretical studies.

The Negative Effects of COVID-19

The Central Agency for Public Mobilization and Statistics study indicates that about 62% of the employed individuals have been affected by their condition, of whom 26% have left work permanently, about 56% are
now working fewer working days or less than usual working hours, and about 18% are working intermittent. Given that income from work represents the main source of income according to the income and spending research, the majority of individuals 74% have decreased their income since the emergence of the virus, and more importantly, the vast majority of young people (between 15 and 24 years old) were the most affected, as the income of about 88% of them decreased, and the reasons are related. That is to work fewer days or fewer working hours (about 46%) or unemployment (31%) or moving to work intermittently (23%), followed by the age group (25-34) by 79%, noting the difference in reasons from the first category, as most of them (53%) do less work, about 28% are unemployed, and 19% work intermittently.

The problem was further complicated by the fact that it came in light of poor labor conditions due to the fragility of the Egyptian labor market and the informal sector’s acquisition of most new jobs, the increasing demand for temporary workers, and the high unemployment rates. Thus, the slogan of decent work, meaning the availability of a suitable job opportunity with an adequate income, allowing stability in work in safe working conditions and social protection, which the International Labor Organization was seeking to achieve, has shifted to the search for job security. Especially with the decline in the employment rate in society from 45% in 2010 to 39% in 2019, related to this issue is the extent of stability in the labor market, as statistics indicate that the percentage of those working in permanent work fell to 73% in 2019, and in contrast, the percentage of workers in intermittent work rose to 20%, while those working in temporary work increased their percentage to 6%. As well as the bad conditions in which they work, the best evidence for this is that the percentage of workers with a legal contract did not exceed 41% of the total wage earners, and the percentage of participants in social insurance reaches 45%. The percentage of participants in health insurance is about 39%, in addition to the high unemployment rate among young people (15-29 years) to about 17%, and this percentage increases for females to 43%, which is very high, in addition to the high percentage of unemployed people who have previously work to reach 31% of the total unemployed.

All these and other indicators show us beyond a reasonable doubt the extent of the seriousness and implications of the aforementioned results on the labor market, especially since their effects do not stop at the economic level (as they represent a huge waste of available human energies), but rather extend their effects to include all aspects of society politically, socially, and culturally. And you need to adopt a new employment policy.

After the validity period of the required skills became short-term, which required fundamental changes in education, training, and investment in human capital, health, education, and knowledge, the study also indicates a decrease in household consumption of some basic commodities such as meat, birds, fish, and fruits in exchange for higher consumption of rice, edible oil, and legumes, and most importantly is the increase in household consumption of medical tools, detergents, and disinfectants, as well as Internet bills. The effects of this on living standards and poverty are not hidden, especially if we take into account the results of the income and spending research 2017/2018, as it indicated that the decrease in per capita spending on this commodity group, especially among the lowest tenth of society, has led to an increase in the percentage of the poor by 6.6% points, in addition to the fact that working in marginal sectors or outside establishments and working temporarily are all causes leading to more poverty.

Related to the above is the important results of the fourth section, which dealt with how families deal with lack of income, indicating that 93% of families relied on cheaper types of food with what this means in terms of quality and the like, 16% relied on aid from friends and relatives, and 20% reduced food quantities or reducing
the number of daily meals, which are matters of important significance, and the most dangerous of the above is that 5% indicated that they send family members to eat with others, and in addition to this, about 54% have borrowed or bought food on credit to cover the needs of the family.

All of these indicators show us, beyond any doubt or expectation, the importance of adopting a different social policy, in order to provide a decent income for all citizens, eliminate extreme poverty, and face the challenges of unemployment. This requires thinking about the application of the Universal Basic Income System (UBI), which is a form of social security that guarantees a certain amount of money for every citizen, without preconditions, which is the most prominent idea of our time, and this is not a new concept, but it has become a requirement for both the left and the right in recent years as it is the key to addressing the aforementioned problems, so some countries are trying to implement them now, provided that the existing social protection programs such as Takaful and Karama and social security pensions are to be merged into this system, continuing and accelerating social programs that have a quick impact on the poor, especially developing informal areas, social housing, and developing public hospitals, along with the provision of medical supplies and the provision of medicines, baby milk, and health units supplies.

**Research Question**

This research paper is an attempt to answer this question: “What measures will be taken by the Egypt to protect low-income families and first daily care workers, until the war on Corona will not be low-income and at the same time? Do you consider the personal exemptions of the most important of these measures?

**The Measures Taken by the Egyptian Government to Confront the Negative Effects of COVID-19**

Egypt has not been exposed to such a confrontation in the modern era, and it does not have sufficient experience to confront a rapidly spreading “epidemic”, as is the case in the Corona virus, which spread throughout the world at an unprecedented speed, and what the government is doing is that something is delayed, but it is good and indicates the existence of a real administration of the crisis.

The Central Bank issued an emergency meeting of the Monetary Policy Committee several decisions, foremost of which is to cut interest rates by 3% at once for the first time, to exceed experts’ expectations, and to postpone loan installments for companies and individuals for a period of six months, which definitely supports the economic sector and limits the negative effects of the Corona virus, and the Cabinet issued a package of decisions to support the industrial sector, preceded by decisions to support tourism, real estate, and the service sector.

At the forefront of the decisions taken by the government to support the industry is to reduce the prices of natural gas and electricity and provide one billion pounds to pay part of the arrears of exporters, postpone the payment of the real estate tax due on factories and tourist establishments, and raise administrative reservations for all financiers who have tax payable in exchange for paying 10% of their tax due.

These decisions, despite their importance, are not sufficient in light of the current crisis. They are stimulating measures for the economy that succeed in normal times, but they will not be a real savior in the face of a major crisis that threatens all economic sectors.

For the industrial, tourism, and service sectors, the government has requested more support to meet the current challenges, despite the fall of other sectors from the government’s accounts, foremost of which is the agricultural sector, which bears the burden of providing the basic needs of food for the coming period.
In 2016, the government announced the implementation of a social security system to protect low-income people from the negative effects of economic reform measures, foremost of which is the liberalization of the exchange rate “floating the pound”, and 90 pounds per month for bread subsidies. The government allocated about 15 billion pounds in the 2017-2018 fiscal years to the Ministry of Social Solidarity to spend on “Solidarity and Dignity” programs.

On 05-07-2020, Law No. 26 of 2020 was issued amending some provisions of the Income Tax Law promulgated by Law No. 91 of 2005. This is the law approved by the House of Representatives based on a bill submitted by the government. The law includes amending Article 8 regarding amending tax brackets and the tax rate for each segment, Article 13, Clause 1 regarding the amount of personal exemption, and Article 87 which deals with imposing additional tax amounts on the difference between the final tax value and the tax value mentioned in the tax return. The Income Tax Law has been amended several times, the last of which was in 2018, as the percentages of the tax deduction system that were introduced in the 2017 amendment were amended to reduce the tax burden on the lower income classes.

Given the direct impact of these adjustments on the disposable income of consumers in addition to their impact on social justice and the redistribution of income between the different classes, we will seek in this article to conduct a simplified analysis of them, specifically in terms of how they affect the poorest classes and thus social justice. We will also seek to present the impact of these amendments on the tax outcome of the state budget and how they will help reduce the chances of tax evasion. Finally, we will raise a question about the extent to which social justice has been achieved by the division of segments, especially in light of the Corona pandemic and the importance it has shown for social protection policies.

First: Looking at the amendment of Article 8 regarding the amendment of tax brackets on natural persons, we find that the most important items of the amendment include raising the tax exemption limit to 15,000 pounds, an increase of 7,000 pounds from the exemption limit before the amendment, which was 8,000 pounds.

In addition, Parliament approved the amendment of Article 13, Clause 1, by increasing the annual personal exemption limit for workers with others to 9,000 pounds from the income value, after it was 7,000 pounds before the amendment. The personal exemption limit is the amount that is completely exempt from taxes with respect to the income of employees of others, and does not apply to other natural persons, and therefore, when calculating income tax, this amount is subtracted from the total salary first and then the tax is calculated on the rest.

In addition, a new bracket was introduced to support the poorest classes at a price of 2.5% for those with incomes up to 30,000 annually. This is in addition to the introduction of a 25% tax rate on people with high incomes, which exceeds 400,000 annually, in addition to abolishing the tax deduction system.

Looking at the amendment of Article 8 regarding amending the brackets and the tax rate, we find that the goal is to achieve social justice by raising the exemption limit and creating a reduced rate of 2.5% on incomes up to 30,000 pounds annually. But in order to achieve this goal, it must be ensured that increasing the first tranche with the abolition of the tax deduction will achieve tax savings for lower-income groups without disrupting tax escalation;

The tax deduction system was introduced in 2017\(^1\) in order to support the lower income classes and ensure that the tax burden is distributed fairly among the different classes. However, according to the

---

\(^1\) See Law No. 82 of 2017 amending some provisions of the Income Tax Law promulgated by Law No. 91 of 2005. It was issued on 06/21/2017.
amendment subject to comment, the tax deduction system has been canceled, as we have indicated. The government relied on the bill which submitted to Parliament to abolishing the tax deduction system on the grounds that its practical application resulted in the marginal effect of the segments, which in turn led to distortions in tax escalation. To understand the marginal effect of segments, it occurs when higher tax brackets receive a lower deduction.

However, it should be noted that despite the damage inflicted on the financiers as a result of marginal segments, the benefits that accrue to the lower income groups as a result of applying the deduction system and without wasting the tax revenues outweigh the harm inflicted on these few groups that were affected by the marginal impact of the segments. They would get an extra discount, which reduced the tax they paid.

Here we point out that the declared goal of introducing a new tax bracket for those with incomes less than 30,000 pounds annually at a rate of 2.5% is to compensate for the damage resulting from canceling the tax deduction. But in practical application, would the introduction of this segment reduce the tax burden on the poorer classes, as was the case with the tax deduction system? Answer: No, not necessarily.

The tax deduction system ensured that the tax burden was distributed among the different groups according to the highest income bracket. It ensured that all financiers did not benefit as much as the tax exemption with different gross salaries. But the introduction of the 2.5% price bracket will benefit all groups that get an annual income of up to 30,000. Accordingly, this amendment, which costs the state treasury four billion pounds—according to the estimates of the Ministry of Finance—will not, in fact, benefit the most classes in need.

If audited consideration, we find that according to the last modification occurred in the minimum salary, the state employees who earn the minimum equivalent of 28,800 pounds annually fall under the second according to the text of the law slide before the amendment and therefore they get a discount on the tax payable equivalent to 85%. These categories will not be affected much by adjusting the tax to 2.5% instead of the 10% prior to the amendments, if we take into account the cancellation of the discount.

Those who earn higher than the minimum income and thus fall in the higher brackets will benefit from imposing a tax equivalent to 2.5% on their incomes up to 30,000 to the same extent as it is levied on those with lower incomes, although they were subject to a 45% or 7.5% lower tax deduction depending on the segment in which they were located.

Accordingly, it can be said that raising the tax exemption limit with the introduction of the bracket at a price of 2.5% with the abolition of the tax deduction system, which used to benefit the lower-income groups, will not bring the desired benefit to the target classes while burdening the state treasury with additional burdens.

In the following, we review a numerical example (Syniavska, Pokataieva, & Pokataiev, 2018) illustrative in order to ascertain whether the lowest income groups falling in the lowest brackets are the main beneficiaries of these amendments:

It is evident from the above table that the rate of change in the tax imposed according to the old system and the modern system is lower among the lower income groups. For example, we find that an employee who earns a minimum salary of 28,800 annually will pay fewer taxes at a rate of approximately 18%, whereas, those

---

2 A proposal for a law to raise the tax exemption limit to 14,000 pounds instead of 8,000—Al-Youm Al-Sabea website—January 7, 2020.
who earn twice the minimum salary benefit from a rate of change equal to 47%, that is, more than twice what benefits those who receive the minimum salary, and those who receive an annual income equal to 100,000 pounds annually benefit from this modern system at the same rate of benefit that it charges the minimum salary.

Based on the above explained, we can say that despite the increase in the exemption limit and the introduction of the bracket for those with incomes up to 30,000 at a tax rate of 2.5%, the abolition of the tax deduction has led to the fact that, despite the reduction of taxes imposed on the lower income groups, they are not the largest beneficiaries among these modifications, despite the state treasury bearing huge sums to raise the exemption limit.

Table 1

| The annual income | Monthly income | The old tax | The modern tax | Rate of change |
|-------------------|---------------|------------|---------------|---------------|
| 28,800            | 2,400         | 207        | 170           | -17.8744      |
| 40,000            | 3,333.33      | 1,457.50   | 675           | -53.6878      |
| 57,600            | 4,800         | 5,152.25   | 2,715         | -47.3046      |
| 75,000            | 6,250         | 8,371.25   | 5,725         | -31.6112      |
| 100,000           | 8,333.33      | 12,999.25  | 10,725        | -17.4762      |

Conclusions

By studying the effect of adjusting the brackets and the exemption limit with the tax deduction system, we find that the tax deduction system—despite its disadvantages with regard to what is known as the marginal effect of the tranches—is a positive step on the road to achieving tax justice, and that it would have been more beneficial perhaps to address the negatives resulting from it in other ways without canceling it.

We must also express here our fear that the creation of a new segment for the higher-income classes at a rate of 25% will lead to some financiers converting their entry into companies in order to benefit from the tax rate difference, as the tax rate for legal persons is lower (22.5%), which may impede the achievement of the desired goal of the introduction of this segment, which is to increase the tax collection.

I can be said that raise the tax exemption limit with the introduction of the bracket at a price of 2.5% with the abolition of the tax deduction system, which used to.

Personal exemptions did not succeed in achieving tax justice by easing the tax burden on the low-income people in society.

References

Azlan A. A., Hamzah M. R., Sern T. J., Ayub S. H., Mohamad, E. (2020). Public knowledge, attitudes and practices towards COVID-19: A cross-sectional study in Malaysia.

El-Hanawi M.K., Angawi, K., Alshareef, N., Qattan, A. M. N., Helmy, H. Z., Abudawood, Y., Alqrashi, M., Kattan, W.M., Kadasah, N.A., Chirwa, G.C., and Alsharqi, O. (2020). Knowledge, attitude and practice toward COVID-19 among the public in the kingdom of Saudi Arabia.

Ali, O. M., Mohamed, A. S., Mohamed, E. I., Abdullah, S. F., Hassan, S. B., & Abdel-Latif, M. M. (2020). Knowledge and awareness of the novel coronavirus disease (COVID-19) pandemic among egyptian population. Bulletin of Pharmaceutical Sciences. Assiut, 43(2), 177-189.

Elkhashen, E. M., Sarhan, A., & Ejigu, A. (2020). Egyptian budgetary responses to COVID-19 and their social and economic consequences. Journal of Public Budgeting, Accounting & Financial Management.

El Mezayen, S. E., & Elhossiny, Elkazeh, E. A. E. (2020). Public's knowledge, attitude and practices regarding COVID-19 pandemic in Al Gharbia governorate, Egypt. Tanta Scientific Nursing Journal, 19(2), 31-50.
Ferdousa, M. Z., Islama, S., Sikder, T., Mosaddek, A. S., Zegarra-Valdivia, J. A., Gozalf, D. (2020). Knowledge, attitude, and practice regarding COVID-19 outbreak in Bangladesh.

Fellows, J. A. (2014). High-income taxpayers and the new implicit tax on exemptions and personal deductions. *Franklin Business Law Journal*, volume number (1), page range.

Hellström, B., & Sultan, L. (2020). Hybrid patches of commoning-unpacking influences of the hydrosocial cycle on commoning in a downstream desert reclamation area: case study in Youssef El Seddik, Egypt.

Law No. 82 of 2017 amending some provisions of the income tax law promulgated by Law No. 91 of 2005. It was issued on 6/21/2017.

Syniavska, O., Pokataieva, O., & Pokataiev, P. (2018). On the expediency of granting tax exemptions in the sphere of settlements improvement. *Baltic Journal of Economic Studies*, 4(4), 321-325.

See Law No. 26 of 2020 published in the Official Gazette on 05-07-2020.

Syniavska, O., Pokataieva, O., & Pokataiev, P. (2018). On the expediency of granting tax exemptions in the sphere of settlements improvement. *Baltic Journal of Economic Studies*, 4(4), 321-325.

The Central Agency for Public Mobilization and Statistics Website (2020). Retrieved from https://www.capmas.gov.eg/Pages/populationClock.aspx.