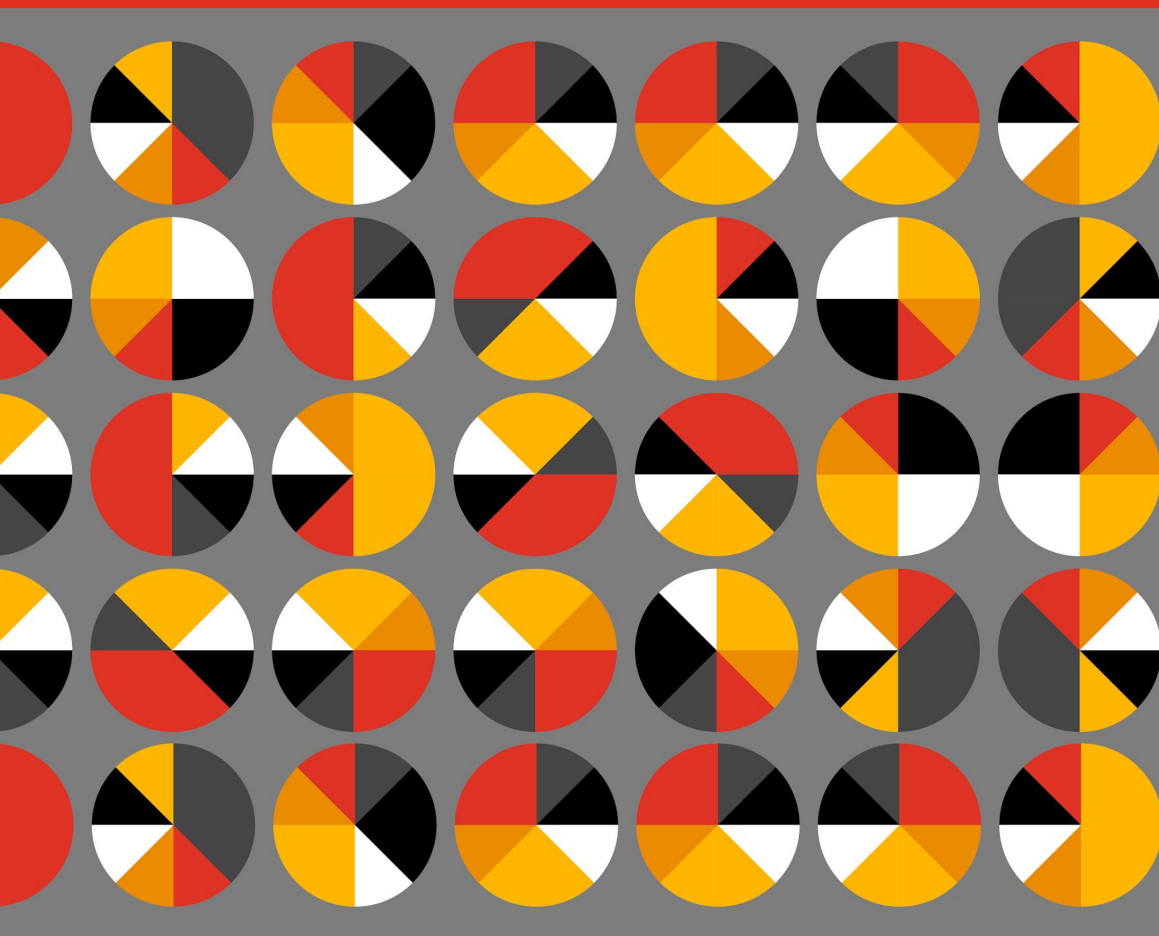


Egypt: New set of laws to regulate recent COVID-19 tax measures and amend the income tax, real estate tax and the social insurance laws

May 2020



In brief

In response to the COVID-19 pandemic, the Egyptian Government recently issued law No. (24) to set the governing rules for applying some of the COVID-19 Egyptian tax measures, previously released in March/April 2020.

Additionally, the Egyptian Government has issued three other new laws (No. 23/ 25/ 26), tackling the laws/amendments that were recently introduced for real estate tax, social insurance and pensions' law, and income tax as means to maintain tax fairness and proper tax regulations within the country.

In this alert, we summarize the key provisions of the four new laws, as stipulated by the Egyptian Government.

In detail

We illustrate below the key laws/amendments that were recently introduced by virtue of the four new laws. These laws are particularly concerned with COVID-19 tax rules, personal income tax, financial penalties, real estate tax as well as social insurance and pensions' law, as further explained below.

Law # 24 related to COVID-19 Egyptian tax rules

This new law was enacted to stipulate the governing rules for applying some of the COVID-19 Egyptian tax measures granted by the Egyptian Government as means to facilitate the taxpayers' obligations/procedures during this unprecedented situation.

Its provisions are only applicable to individuals, companies and entities, which operate in the economic, production and service sectors that have been identified by the Egyptian Cabinet as negatively impacted by the COVID-19 aftermath (referred to herein collectively as "eligible taxpayers"). Below is a summary of the key COVID-19 tax provisions, as provided by this new law.

1. Deadline extension for tax return submissions/tax settlements

The Egyptian Cabinet may extend the deadline for either the submission of the tax returns that must be filed within the COVID-19 period or the tax due settlement (in full or part) of eligible taxpayers, based on the provisions of the Egyptian income tax law and/or the Value Added Tax law, for a period that shall not exceed three months (renewable for a similar three month period).

No delayed fines or additional taxes shall be levied on eligible taxpayers for the extended period(s) referred to above, and they shall not be included while calculating the statute of limitation of their tax due.

2. Deferral of real estate tax settlements

The Egyptian Cabinet may allow the deferral of the real estate tax due settlement (in full or in part), for a period that shall not exceed three months (renewable for a similar three month period), for all or some of the licensed properties that are actually used in the economic, production or service sectors which have been identified by the Egyptian Cabinet as negatively impacted by COVID-19.

3. Social insurance contributions' deferral/settlement on installments

The Egyptian Cabinet may defer or allow the eligible taxpayers to settle all or part of their social insurance contributions on installments (including the employee's and the entity's shares without calculating any additional amounts), for a period that shall not exceed three months (renewable for a similar three month period).

4. Settlement of administrative fees on installments

The Egyptian Cabinet may also allow the eligible taxpayers to settle the fees due on administrative services on installments, for a period that shall not exceed three months (renewable for a similar three month period), and without bearing interest charges.

It is essential to highlight here that, the below-mentioned conditions must be considered, in order for eligible taxpayers to benefit/continue benefiting (in full or in part) from the COVID-19 tax provisions:

- Taxpayers must not lay off or have previously laid off in full or in part any of their employees irrespective of the nature of their work (i.e. blue or white collar); or
- taxpayers must not reduce their employees' basic salaries/wages as a result of the COVID-19 economic repercussions.

It should be noted that taxpayers who have previously laid-off their employees (in the manner described above, may still benefit from the COVID-19 tax provisions, if they reinstate the employees that have been previously laid-off back to their posts.

Law # 26 amending the personal tax and the financial penalties rates.

The law was recently issued to amend several provisions of the Egyptian income tax law, particularly with regards to the personal income tax rates in addition to the introduction of new financial penalties. Below is a summary of the key amendments, as provided by the new law:

1. Personal income tax amendments

The Egyptian Government recently introduced several amendments to personal income tax applied on salaries and the like (starting from the 1st of July 2020) and on income derived from commercial/industrial/non-commercial activities and real estate wealth (starting from the tax period that ends after the date of this law's entry into effect).

Below is a summary of the key personal income tax law amendments as provided by the new law:

- The annual personal exemption is increased from EGP 7K to EGP 9K
- The first income tax bracket (subject to 0% tax) is broadened from EGP 8K to EGP 15K
- Two new income tax brackets are introduced to capture the taxable income ranging between EGP 15K and EGP 30K and the bracket amounting to more than EGP 400K
- The abolishment of the tax deduction system
- Taxpayers with higher net taxable incomes are not allowed to avail the lower tax brackets, as per the below:
 - The annual net taxable income ranging between EGP 600K and EGP 700K is not eligible for the 0% tax bracket
 - The annual net taxable income ranging between EGP 700K and EGP 800K, is not eligible for the 0% and 2.5% tax brackets

- The annual net taxable income ranging between EGP 800K and EGP 900K is not eligible for the 0%, 2.5% and 10% tax brackets
- The annual net taxable income ranging between 900K and 1M, is not eligible for the 0%, 2.5%,10% and 15% tax brackets
- The net taxable income of above EGP 1M, is not eligible for the 0%, 2.5%,10%, 15% and 20% tax brackets

We illustrate below the new income tax brackets, as per the recent amendments introduced by the new law.

Tax rate	Annual net taxable income					
	Up to EGP 600K	EGP 600K-700K	EGP 700K-800K	EGP 800K-900K	EGP 900K-1M	More than EGP 1M
0%	Up to EGP 15K	-	-	-	-	-
2.5%	EGP 15K–30K	Up to EGP 30K	-	-	-	-
10%	EGP 30K–45K	EGP 30K –45K	Up to EGP 45K	-	-	-
15%	EGP 45K- 60K	EGP 45K- 60K	EGP 45K- 60K	Up to EGP 60K	-	-
20%	EGP 60K-200K	EGP 60K-200K	EGP 60K-200K	EGP 60K-200K	Up to EGP 200K	-
22.5%	EGP 200K-400K	EGP 200K- 400K	EGP 200K- 400K	EGP 200K- 400K	EGP 200K- 400K	Up to EGP 400K
25%	More than EGP 400K	More than EGP 400K	More than EGP 400K	More than EGP 400K	More than EGP 400K	More than EGP 400K

2. Financial penalties (Amending article# 87 bic)

By virtue of this new law, taxpayers are required to pay an additional amount on top of their final tax due as a financial penalty for tax underpayment calculated based on a rate that varies according to the value of the difference between the final tax and the tax amount stated in the corporate income tax return, as prescribed in the Table below.

Value of the difference	Financial penalty (%)
<ul style="list-style-type: none">Less than 50% of the final tax amount	20%
<ul style="list-style-type: none">50% or more of the final tax amountIn case of not submitting the corporate income tax return	40%

Please note that taxpayers have the opportunity to reduce the penalty rates by 50%, if they can reach an agreement with the ETA before referring the case to the Appeal Committee.

Law #23 related to real estate tax

By virtue of this new law, an amendment to real estate tax law was recently introduced, in addition to a new article concerning real estate tax exemption. Below is a summary of this new law's provisions:

1. Amendment on the real estate tax law

The real estate's definition was recently amended to replace the original land spaces' provision by the following: "Actually exploited lands, whether independent or attached to buildings, fenced or not (as determined by the relevant executive regulations)".

2. A new article introduced for real estate tax law

A new article was recently introduced to the real estate tax law, allowing by means of a decision from the Egyptian Cabinet, real estate tax exemption for the real estate actually exploited in the production and services activities stated by the Egyptian Cabinet, provided that the decision includes the below, for each production or service activity:

- The percentage of exemption; and
- its duration.

Law #25 related to social insurance and pensions

This new law was recently issued to amend certain provisions of the social insurance and pensions' law and to set the governing provisions for increasing the variable wages' pension for those special increases that were decided upon previously, but not included in the basic wages till the pension entitlement. Below is a summary of this new law's provisions:

1. Social insurance and pensions law's amendments

Certain provisions of the social insurance and pensions' law were amended by virtue of this new law, whereby:

- The Inflation rate definition was amended to become "The relative change in the general index of consumer prices during a year, at the level of the Egyptian republic:
 - Issued by the Central Agency of Public Mobilization and Statistics, and determined in April of each year; and

- whose rules are issued by means of a decision from the head of the Social Insurance Authority, in coordination with the Central Agency of Public Mobilization and Statistics”.
- Starting from the 1st of July 2020, the pension amounts due on the 30th of June of each year shall be increased at a rate not less than the inflation rate and not more than 15%. Such an increased amount shall be considered as part of the pension when calculating the next increase provided that:
 - The value of the pension increase shall not exceed the rate of the increase attributed to the maximum monthly subscription wage on the 30th of June of each year,
 - the rate of the pension increase shall be based on an Experts Committee Report and shall be issued by means of a decision from the Egyptian president, and
 - the Social Insurance Fund shall bear the rate of the increase, relevant to the pensions’ part to which it is bound, and the Public Treasury shall bear the remainder of the increase.
- The Public Treasury is required to pay an annual installment of EGP 160.5B to the Social Insurance Authority in exchange for the Social Insurance Fund’s services/obligations, which will be increased by a compound rate of 5.9% annually (instead of the 5.7% that previously applied).

2. Variable wages’ pension increase for special increases not included in the basic wages

By virtue of this new law, the variable wages’ pension shall be increased by 80% of the special increases’ amounts that were decided upon previously (starting from the 1st of July 2006), but were not included in the basic wages; on the basis that the date of their inclusion has not become due yet, or had no specific date for inclusion, provided that the following conditions are met.

- The entitlement to pensions shall be in accordance with the provisions of the social insurance and pensions’ law
- By end of service, the insured person is required to be subscribed for the relevant special increases, taking into consideration that:
 - The value of the pensions’ increase shall be calculated based on the special increases’ amount, attributed to the basic subscription wage of the insured person, and shall not exceed the maximum limit of the subscription wage
 - Availing the pensions, increase shall not be bound by the pensions’ maximum limits
 - As for the pensioners attributable to the application of the social insurance and pensions’ law, they shall avail their special increases’ due amount or their pension’s increased amounts, whichever is greater
 - The value of the pensions’ increase (determined based on previous laws/decrees), shall be recalculated to account for the provisions of this new law noting that the resulting financial differences due amounts shall also be reimbursed, for a maximum period of five years, starting from the date that this new law takes effect.

Key takeaway

Four new laws were recently issued by the Egyptian Government to introduce the amendments/laws necessary to respond to the COVID-19 pandemic and to maintain tax fairness and proper tax regulations within the country.

In particular, law No. (24) provides the governing rules for applying certain COVID-19 tax measures while laws No. (23/ 25/ 26) stipulate the amendments/laws that were recently introduced for real estate tax, social insurance and pensions law, and personal income tax.

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Let's talk

For a deeper discussion of how this issue might affect your business, please contact:

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