



Doing Business in Egypt 2024

A Tax and Legal Guide





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Welcome to this guide

Your journey begins

Location

Presence

Objectives

Operations

This broad base coupled with a large population, renewed political stability and the impact of a wide ranging programme of economic reform is driving consistent actual and forecast growth in GDP in excess of 4.4% per annum. This is creating an environment which is positive for both innovation and foreign direct investment ("FDI").

PwC Egypt combines in-depth knowledge of the Egyptian economy, tax regulations, local business standards, and customs with extensive coverage, breadth of resources, and quality assurance. Being part of a worldwide network enables us to combine a coherent global vision with a robust local identity.

This guide is intended to provide an introduction to the taxation and legal aspects of doing business in Egypt, particularly from the perspective of an inbound investor.

We hope you find the guide useful.

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Introduction

Overview

Egypt, officially the Arab Republic of Egypt has a recorded history that dates from approximately 3200 BC.

The population of Egypt is some around 100 million, making it the most populous country in the Middle East

The Egyptian Government's policies are now focusing on economic recovery and growth through the following five channels:

- mega infrastructure projects
- tourism
- improvements to economic policy
- increasing private sector investments attracting GCC investments.

Sectors seen by the Government to be of particular focus for foreign investors in the short to medium term include energy, construction and real estate, transportation, and telecommunications.

Egypt made remarkable economic progress during the recent years; according to a report issued by the World Bank, Egypt has moved up 8 spots to rank 120 out of 190 countries. In 2020, Egypt made another improvement by ranking 114. Egypt's economic growth has been strong and resilient during the COVID-19 pandemic. In 2020, Egypt did record a positive growth at a rate of 3.6%, despite the impact of the pandemic which is considered the second largest growth rate in the world. Egypt ranking improved in other sectors such as Global Knowledge index 2020 by ranking 83 out of 138 countries.

The currency of Egypt is the Egyptian pound (EGP). Due to the flotation of the Egyptian pound that took place in November 2016, the Central Bank of Egypt has relaxed the restrictions and limitations on the transfer of foreign currencies.

Arabic is the primary language of Egypt. Most international business people there speak English, French or both.



Incentives for foreign investors

The Investment Law no.72/2017 ("Investment law") that was issued on 31 May 2017, canceled/replaced the previous investment Guarantees and incentives Law no.8/1997. The Investment Law introduced new incentives for investors.

The Executive Regulations followed on October 2017.

The Investment Law introduced notable amendments such as returning back the private free zone which was previously abolished, moreover it provides several incentives such as tax incentives, unified customs rate and free lands.

Simplified Vendor Registration System

Every non resident and unregistered person who does not practice an activity through a permanent establishment in Egypt and sell goods or provide services to a person who is not registered inside the country, is obliged to apply for registration under the simplified vendor registration system.

Legal and regulatory framework

Egypt is a civil law country, with a legal system based on the Islamic Shari'a and Napoleonic Codes.

The Islamic Shari'a have historically been more relevant in personal matters. As for commercial activities, legislation have been enacted to regulate them.

The key laws for the establishment of a legal entity are the Investment Law, the Companies Law no. 159/1981 as amended in 2018 by virtue of Law No. 4/2018. the Capital Market Law no. 95/1992 and their Executive Regulations. and the Antitrust Law no. 3/2005.

The Constitution (of 2014) is the supreme legislative source of law, followed by the relevant Laws and the Executive regulations, which are issued to clarify, complete, and/or explain the law.

The court system in Egypt is as follows:

- Common Court System: which is constituted of three tiers: courts of first instance,, courts of appeal and courts of cassation; having jurisdiction over the disputes arising between private persons/entities.
- Administrative courts: (State Council); having jurisdiction over the disputes that the government or any of its bodies/ authorities (acting as a sovereign power) is a party in.
- Courts of special jurisdiction: (Supreme Constitutional court, Economic courts, family courts, and Military courts).

As with other civil law systems, whilst there is not a system of legally binding case law precedents, previous judicial decisions do have persuasive authority. Certain courts can be de facto bound by the principles and precedents of the Court of Cassation for civil, commercial, and criminal matters, and the Supreme Administrative Court for administrative and other public law matters.

Establishing a Business in Egypt

Forms of business

The main forms of legal entities to establish a business in Egypt are:

1) Joint stock company (JSC)

Save as necessary permit and license that may be required in relation to certain types of activities, (e.g. industrial projects which require an approval by IDA after establishing the legal entity). Generally, there are no restrictions on the purposes of a JSC provided that it does not conflict with public order or morality in Egypt.

Shareholders

JSC must be established with at least three shareholders at all times which may be judicial or natural persons. As a general rule, JSC may be fully owned by foreign investors with the exception of some activities explicitly mentioned by law and requires a specific percentage of Egyptian national ownership.

Capital Requirement

The minimum capital of a JSC is EGP 250,000 (Two hundred and fifty thousand Egyptian Pounds). A JSC shall be incorporated upon depositing at least 10% of its issued capital, and subsequently, this percentage must be increased to 25% within 3 (three) months from the date of issuing its commercial register. The remaining amount of the issued capital must be paid within a period of 5 (five) years from the date of incorporation. However, a higher capital may be required for specific activities such as importation for trading activity.

Management

JSC is managed by a board of directors which should be composed of at least 3 (three) members who are in charge of the daily operation of the JSC. The board of directors could be judicial or natural persons. They could also be non-Egyptians or Egyptians. (save for activities requiring the appointment of Egyptian nationals to be appointed such as commercial agency).

Depository and registration of JSC's shares at Misr for Central Clearing, Depository System (M.C.D.R)

JSC's are required to be registered at the MCDR upon registration of the company in the commercial register. The Shareholders must deposit their shares with a custodian company listed at MCDR.

2) Limited liability company (LLC)

LLC is permitted to engage in all business activities with the exception of banking, insurance, saving, receiving or investment of funds for the favor of third parties, or any other activities explicitly restricted by law.

Quota-holders

LLC is established with at least two quota-holders which may be judicial or natural persons. LLC could be fully owned by non-Egyptians with the exceptions of some activities explicitly mentioned by law and requires a specific percentage for Egyptians.

Capital

Requirement

Generally, there is no minimum capital requirement for LLC incorporation. with the exception of certain activities, such as importation for trading activity.

Management

LLC is managed by one or more managers who should be in charge of the daily operation of the company. There is no restrictions on the nationality of the managers unless for certain activities (e.g. importation for trading) in which an Egyptian manager is required.

3) Representative office (RO)

The activity of a RO is limited to conducting a market study without performing any commercial activities.

A foreign company is allowed to establish a RO or a scientific office in Egypt to carry out a market study.

A RO is managed by a manager which his/her authorised powers are determined by its parent company.

RO compliance requirements

- The ROs in Egypt must submit a report to the General Authority for Investment and Free zones (GAFI) at the beginning of each year. The report should include detailed information on all its employees, its market study, any decisions made from the parent company in that regard, and a time frame for the remaining studies. The parent company of the RO has to take a decision to establish a legal entity in Egypt, or a branch within (3) years as of the date of its registration.
- The RO shall be accorded a registration certificate from the date of its registration that shall not exceed one year. This certificate is renewed annually subject to the RO's compliance with the applicable laws and regulations.

4) Foreign Branch

A foreign company could operate in Egypt by establishing a foreign branch. The purpose of the branch is limited to implementing a specific contract in Egypt.

Capital Requirement

The minimum capital required to establish a branch is EGP 5,000 (five thousand Egyptian pounds).

Management of the branch

A foreign branch is managed by one or more managers and is responsible for its daily operation. Their authorized powers are conferred by the parent company.

5) Sole Partnership Company (SPC)

SPC's have almost the same features of LLC's.

Partner

SPC's are established with one partner at all times which may be a judicial or natural person.

The partner may be Egyptian or foreigner. However, there are certain activities that the SPC may not carry out except if it is fully owned by Egyptians.

Capital Requirement

The minimum capital of the SPC is EGP1,000 (One thousand Egyptian pounds). The SPC capital must be paid in full upon incorporation.

Management of the company

The day-to-day management of SPC's may be vested to one manager or more. The manager(s) of the SPC could be a foreigner or Egyptian unless the activity of the SPC requires an Egyptian nationality.

Process and Time for Establishment

Incorporation process

Below are the main steps for incorporating a new company in Egypt (i.e. JSC, LLC, SPC):

- Issuance of a certificate of "non-confusion" from the Commercial Registry certifying that the chosen name of the company under formation does not conflict with the name of any other registered company.
- Prepare and review the new company's draft articles of association from GAFI.
- Open a bank account in the name of the new company (under incorporation).
- Apply for security clearance approval for any non-Egyptian founder/shareholder and board member/manager.
- Authenticate and notarize the articles of association.
- Issue the commercial register, tax card and VAT certificate.

As evidenced above and in conjunction with the standard incorporation process, please note that each form of business has its own prerequisites that should be duly noted for its establishment.

Profit repatriation

According to the Central Bank Law No.194 of 2020, any person is entitled to transfer foreign currency inside or outside Egypt, provided that such transfers are: (a) effected through institutions duly licensed in Egypt to undertake such services and (b) in accordance with the rules/decrees issued by the board of directors of the Central Bank of Egypt (CBE). Hence, in general there are no restrictions on repatriation of profits as long as supporting documentation can be provided.

Increase/reduction of the capital

The company's capital is approved by GAFI at the incorporation date. It's permissible to increase or reduce it following the incorporation based on the company's needs and after acquiring GAFI's approval.

Foreign investment reporting requirements

Any corporate entity in Egypt, with direct or indirect foreign investment is required to submit to GAFI the following:

- Quarterly financial reports that should be submitted within a maximum of 45 days from the end of every quarter.
- Annual report which must be submitted within maximum four months following the end of the company's financial year.
- Occasional reports for any changes regarding the company's capital, objective, shareholding structure or the board of directors' structure. Such a report should be submitted within 30 days as of the changing incident.

Non-compliance with such reporting requirements shall expose the company to a fine not exceeding EGP 50,000.

Egyptian Investment Law

The Investment Law No. 72 of the year 2017 allows companies established pursuant to it to benefit from a set of incentives, equal opportunities and enhances competitiveness to avoid monopolization.

It also focuses on simplifying the incorporation process and all corporate procedures through electronic systems.

The investment law covers different sectors such as industrial activities, trade sector, health sector, agriculture, education, transportation, tourism, housing, construction & building, sports, electricity & power, petroleum, water, and communication and IT etc.

Recently, the Egyptian parliament issued law No.160 of 2023 with the intentions to create a more appealing and trustworthy environment for investors. Law 160, introduces amendments to the current Investment Law No. 72 of 2017.

According to the cabinet resolution dated January 3 2024, the eligibility of the investment projects to benefit from the Investment Incentives has been extended for a further 3 years starting October 2023.

Investment systems

The Investment Law governs several investment systems that are classified according to the area and activity of the project.

Such classification is as follows:

A. Internal investment

- The strategic projects that contribute to the community development with regard to public utilities and infrastructure, new and renewable energy or roads and transportation and ports, may be granted a sole approval on the project establishment and operation, this approval will be enforceable without any further procedures.
- The approval is granted by virtue of the board of ministers' resolution and may include granting some of the law incentives.

B. Investment zones

- With regards to some developing areas, the Prime Minister may resolve setting up specialised investment zones in different activity sectors, where the resolution shall determine the location, type of activities to be practiced, and any other conditions.
- Investment areas shall benefit from the investment incentives and guarantees provided in the Investment Law, and each investment area shall be managed by a board of directors, which shall be competent in granting the license to the compliant investors.

C. Technological zones

- The Prime Minister may, upon a proposal from the competent minister, license the establishment of Technological zones in the field of communication and information technology industry.
- All tools, equipment & machines required to conduct the licensed activity will be exempt from taxes & customs and shall enjoy the "Special Incentives".

D. Free zones

- In addition to the Public Free Zones, the Investment Law reinstated "Private Free Zones", which are established upon the issuance of a Prime Minister's decree and each zone shall include several projects practicing similar activities.
- The following industries are prohibited from being established in a free zone: Petroleum industry (not including refining). Fertilizers, Iron & Steel, Alcoholic substances, Weapons, ammunition and explosives, Production, liquidation and transportation of natural gas.
- Under the issued Law No. 160 of 2023, it is now possible, with the approval of the Supreme Council of Energy, to establish projects related to the manufacturing of Petroleum, fertilisers, iron and steel along with the liquefaction and transportation of natural gas and energy-intensive industries, in a free zone.

Energy intensive industries

- Goods exported from free zone projects and goods, tools and equipment imported (for operation purposes) are exempted from custom taxes.
- Necessary Equipment imported to the Egyptian lands for industrial purposes shall enjoy a suspension according to the amendments of law no.3. Since such equipment will be imported from an offshore entity to a Freezone one (same case if they were between two offshore entities), it will be out of VAT scope as well as other taxes and fees.
- The projects established in the free zone are subject to the following fees:
 - Free zone fees: 1% or 2% of the goods value/gross revenues according to the nature of the project.
 - Annual fees: 1/1000 of the capital with maximum amount EGP 100,000.

E. Economic zones

- The economic zone of a special nature has a special law (i.e. law No. 83 of 2002) and a sole governing body (i.e. the Economic Zone Authority) that supervises its implementation, overseeing investment matters within each zone. This body is competent to carry all government mandates and issue required licenses.
- The economic zones aims to form integrated industrial economic segments and serve as international business hubs.
- All machines, equipment, devices and materials raw materials, gear, spare parts and production requirements are exempt from customs duties, and other duties including cars and vehicles necessary for the project activity.
- VAT does not apply to products and services that are produced within the zone. No further fees or stamp tax shall apply.

Investor's Services Centre

- To facilitate the procedures of obtaining all the approvals, permits, and licenses required by the investor for the purposes of the investment project, an administrative unite has been established within GAFI and its branches under the name of "Investor Service Centre" (the "Centre"). This Centre hosts representatives from all competent/relevant authorities and will provide incorporation, post incorporation services and permits electronically for all types of legal entities & whether subject to Companies' Law or Investment Law.
- The Centre shall examine the submitted investment application and issue its decision within maximum of 60 days from the date of the investor's submission of the application along with all required documents. In the event this period expires with no decision issued, this shall be deemed as acceptance of the investor's application.
- With regards to the approvals/permits, the Investment Law has provided 2 business days as a grace period for the Centre's representatives to request any additional documentation from the investor, calculated from the date of submitting the application and the documents, otherwise the application shall be deemed compliant.

Accreditation offices

One of the investment facilitation methods introduced by the Investment Law is the "Accreditation Offices". The main purpose of such offices is to assure the quick issuance of the certificates required to confirm the status of investment projects. Such offices must be (a) established in the form of a JSC, and (b) duly licensed by GAFI as an "Accreditation Office".

The Accreditation Office shall have the right to issue for the investor, at its own responsibility, a certificate of accreditation that indicates the status of conditions required to be satisfied by the investment project. This certificate of accreditation shall be (a) valid for one year, (b) acceptable before all other competent authorities, to the extent that these authorities have valid reason to reject it, and (c) deemed an official instrument.

Investment guarantees

The Investment Law provides the following guarantees for all investment projects (irrespective of the governing law thereof:

- All investors shall receive fair and equal treatment.
- Foreign investors (being shareholder, founder, or owner) will be given a residence permit throughout the term of their investment project.
- The investor must receive proper justification in relation to any investment decision.
- The invested funds cannot be seized except by virtue of a final court judgment.
- The license issued for the investment project shall not be revoked or suspended and the real estate properties allocated for the investment project shall not be reclaimed before issuing a warning to the investor indicating the violation committed and after the elapse of the grace period granted to rectify the causes of the breach.
- Foreign investor shall have the right set up, establish, expand, and funds his investment from abroad with foreign currencies.
- Investors are entitled to own, manage, use, and dispose of the project. They could make profits and transfer those profits abroad.
- Facilitating the liquidation procedures, to be finalized within 120 days from the date the liquidator submits an application in this regard.
- Investors subject to the investments law could benefit from importing the necessary raw materials, equipment, spare parts, machinery, production supplies that suit the nature of their activities and necessary for the operation of the project without the need to be registered at the Importers Register, moreover it can export its products without the need to be registered at the Exporters Register.
- The investors have the right to appoint expats with a maximum amount of 10% of the total work force. However, this rate could increase 20% of the total work force in case that it is not possible to appoint national workers who have the adequate qualification of the project. Additionally, for some strategic projects may be exempted from such quota.

Investment incentives

The Investment Law provides several incentives some of which are general for all projects established under the Investment Law, others are special incentives only applicable to investment projects of certain activities.

A. General incentives:

The following general incentives are applicable to all investment projects except free zones projects:

- The articles of association, loan agreements and pledge contracts are exempted from the stamp duty tax, notarization, and publication fees for 5 (five) years from the date of registering the company. The registration of the project land contract is exempted from the registration fees.
- A unified customs duty rate of 2% (two percent) of the value of all imported equipment necessary for establishing the project (a new decree has been issued to reduce this 2% to 0% for the technological zones).

B. Special incentives:

Depending on the location of the investment project and the satisfaction of certain conditions, the investor could be granted a discount of 30% or 50% to be calculated from the investment setting up cost. Said discount should not exceed 7 (seven) years from the date of initiating the activity. Moreover, in all cases, the investment incentives shall not exceed 80% of the paid-up capital of the project until the startup of the activity. Further decrees have been promulgated to specify the types of projects and investment areas that should benefit from such discount.

Moreover, Law No. 160 of 2023 introduced a new cash incentive for investments, applicable to both, new projects and the expansion of ongoing projects related to industrial activities covered by the existing special incentives program. This incentive offers investors the opportunity to reclaim a percentage, ranging from 35% to 55% of taxes paid on the income generated from business operations. To be able to benefit from such incentive, project owners must meet the following conditions:

1. At least 50% of the project funds must consist of foreign currency from abroad.
2. The activity must begin within six years following the enforcement date of Law No. 160. The Egyptian Cabinet may expand maximum for additional six years.

The Egyptian Ministry of Finance must grant refunds, related to the new cash incentive, to the investor within 45 days from the cut-off date of the tax return filing. Failing to do so will make the government liable for a late payment fee, to be paid to the investor.

It is worth mentioning that, the recently established Law No. 160 of year 2023, extends the time frame during which an investor can benefit from the special incentives, provided that the company is founded within three years following the enactment of the Executive Regulations of the Investment Law. This extension can be granted by the Egyptian cabinet, which now has the authority to provide an extension limited to 9 years, instead of 3 years.

C. Additional incentives:

By virtue of a decision issued by the Cabinet, some investment projects could be granted additional incentives provided that it started the operations of its activity within 6 years as of the effectiveness of the Investment Law and have Egypt as one of its principal places of business, or the main source of its funds is the foreign currency transferred from abroad, or exporting at least 50% of its production, or its activity transfers an advanced technology to Egypt.

- Allowing the investment project to have its own customs gates that should be dedicated for the investment project's import or export.
- The government bears in whole or part of the utilities cost of the real-estate property dedicated to the investment project upon its operation.
- The government to provide a share in the costs of the employees' technical training.
- Refund of 50% of the value of the land allocated for industrial projects which started its activity within 2 (two) years from the date of receiving the land.
- Allocate lands free of charge for some strategic activities prescribed in the law.

It is worth noting that, recently Law No. 160 of year 2023 was introduced exempting the following, if certain approvals obtained, as part of the additional incentives:

1. Usufruct charges for lands designated for project establishment, applicable for up to a maximum of 10 years from the beginning of operations.
2. Contributing to the expenses related to infrastructure, public services and utilities, capped at a percentage not exceeding 50%.
3. Expenses, up to a maximum of 50%, for the project's utilization of essential utilities, for a period not exceeding 10 years.



Customs and VAT for equipment

Reduced Customs Rate

The unified customs rate is 2% on imported tools, equipment, and machinery necessary for the establishment of new business (reduced to 0% for projects in the technological zones).

Value Added Tax (VAT)

The new amendments suspended the payment of the VAT due on machinery and equipment whether imported or purchased from the local market for industrial purposes, for a period of one year from the date of their custom release or purchase from the local market.

This period may be extended by a maximum of an additional one year and it is important to mention that such suspension is not applicable to services providing companies.

When proven by the ETA that such machinery and equipments were used in industrial production during that period, it shall be exempt from VAT.

If without using the machines and equipments in industrial production the period ended, then the VAT and additional tax become due.

Considering that refund on machines and equipments is no longer applicable. The paid inputs' Value Added Tax (VAT) is deductible if the company's activities are subject to VAT

Simplified incorporation procedures

GAFI shall decide upon the incorporation request within no later than one business day from the date of submitting the request.

Each legal entity shall have one official unified number for dealing with all governmental sectors.

Feasibility of transferring the incorporation shares during the first 2 financial years, after obtaining the competent minister's approval.

Lands allocation

Competent administrative authorities shall prepare to GAFI detailed map for all lands available for investment, which shall be updated every 6 months.

Disposing such lands shall be upon the investor's request or an invitation from GAFI.

Disposal is through sale, rent, rent ended by ownership, or license to use.

Disposing lands to investors satisfying certain criteria, free of charge by virtue of presidential decree, against paying a monetary guarantee not exceeding 5% of the project's investment costs to be refunded after 3 years of starting activity.

Supreme Investment Council

A supreme council shall be founded, headed by the president in order to take all the necessary actions for having a better investment climate, legislative reform, approving investment policies and plans, following up the implementation of the investment plans and programs highlighting the investment opportunities, studying and finding solutions for investment drawbacks, and resolving the disputes that may arise between different governmental authorities with regards to investment area. The resolutions of such council are binding to all governmental authorities.

General Authority for Investment and Free Zones “GAFI”

GAFI, being the competent authority for regulating and enhancing the investment and executing this Investment Law and the Companies' Law, shall publish annually a list of the companies benefiting from the incentives (as well as governmental lands) stipulated in the Investment Law.

Investment areas shall benefit from the investment incentives and guarantees mentioned above, and each investment area shall be managed by a board of directors, which shall be competent of granting the license to the compliant investors.

The Investment law No.72 granted the Cabinet the authority to approve certain projects related to infrastructure and renewable energy, if such projects are of a strategic nature. The conditions for obtaining such approval is determined by the cabinet.

Amendments to Egypt's Importer's Register Law

On 29 October 2023 Law No. 173 of 2023 (referred to as the "Law") was officially enacted and published in the Official Gazette. This Law introduces amendments to the importer's register law, No. 121 of 1982. This amendment to the Law includes the provision for foreign investors to become eligible candidates for registration. This change will come into effect on the day immediately following its publication. which is october 30,2023.

Eligible Entities for Importer's Register Registration:

The Provision of the Law permits joint-stock companies, partnerships, limited by shares, limited liability companies, and partnerships.

Importantly, these entities can now register even if foreign partners hold ownership stakes exceeding 51% and Egyptian partners possess less than 51% of the capital.

Duration of the registration:

Under the new regulations, the maximum registration period shall not exceed 10 years. Extensions are also possible, subject to a decision made by the cabinet based on recommendations from the responsible minister overseeing foreign trade affairs. An Additional term may be granted upon approval.

Closing Business

For JSCs and LLCs a liquidator needs to be assigned to finalize the liquidation process; the process can be summarized as follows:

- The company will convene an extraordinary general assembly meeting to put the company under liquidation and appoint the liquidator.
- Authenticating the minutes of meeting from GAFI.
- Putting the company under liquidation and registering the liquidator's name in the commercial register.
- Finalizing the liquidation process.
- Deregistering the company from the commercial register.
- Closing the tax and social insurance files.
- The customs authority, tax authority and social insurance authority will be notified by GAFI and the liquidator that the company became under liquidation and those authorities.

For foreign branches

- Prepare and submit the required documents to GAFI and the commercial register office.
- Obtain the commercial register approval on deregistering the branch from GAFI.
- Obtain GAFI's approval on the deregistration.
- De-register the branch from the commercial register.
- Obtain an official extract of the commercial register confirming the deregistration.

For representative offices

- Prepare and submit the required documents needed to GAFI.
- Obtain a certificate from GAFI.
- Indicating that the Representative Office has been closed, addressed to the competent authorities/entities.



Key Considerations

- There are a number of alternative forms of entities open to investors.
- Restrictions do exist concerning Egyptian stakeholders and management.
- The time taken and the processes required for business establishment differs depending on the type of entity to be established. The new Investment Law and the operation of the GAFI is intended to streamline processes and provide incentives.



Taxation

Corporate income tax

In Egypt, companies are generally liable to corporate income tax ("CIT") at a flat rate of 22.5%; excluding the Suez Canal Authority, the Egyptian Petroleum Authority and the Central Bank of Egypt, which are liable for CIT at the rate of 40%; as well as the companies operating in the oil and gas exploration and production activities; which are liable for CIT at the rate of 40.55% in Egypt.

Corporate income tax is imposed on:

- Companies that are resident in Egypt on all profits realized from Egypt and abroad.
- Companies that are non-resident in Egypt with regard to profits realized through a permanent establishment in Egypt.

The income of a company may include any, or all, of the following:

- Profits from a commercial and/or industrial activity.
- Income from the use and/or disposal of buildings or assets.
- Amounts received on shares of associations of capital yield paid by the government, local government units, public juridical persons.
- Rental amounts, license fees, royalties received.
- Income from any other activity performed in Egypt.

Tax return and tax payments

Companies are required to submit a tax return within four months of the end of their financial year where they are required to assess the amount due in the form of a self-assessment.

Corporate taxpayers are likely to have a credit balance arising from local withholding taxes suffered (see further details in the Withholding tax section). Credit is given for such advance payments made on the taxpayer's behalf against the total tax liability arising from the tax return.

The balance of the tax is due and payable on the date on which the return is submitted.

Taxpayers have the right to submit an amended corporate income tax return within one year of the original submission date. However, in case of tax evasion or receiving a tax audit notification from the Egyptian tax authority ("ETA"), the taxpayers would not be entitled to submit such amended return.

In case the amended tax return provides a lower tax due than the original return, the taxpayer should submit a refund request to the ETA. The ETA will review the case and respond to the taxpayer within six months of the request's submission date.

E-filing of corporate income tax returns

Taxpayers are currently required to submit their income tax returns electronically on the ETA's website; whereby, the hard copies are no longer acceptable by the ETA.

When it comes to individual taxpayers, they still have the option to pay their annual income taxes due electronically or manually.

Taxpayers (i.e. other than the individuals) are accordingly required to register on the ETA's website to create an account and to obtain a username, password and a specific code to be provided to their tax advisor(s). Following the registration process, taxpayers shall prepare their annual income tax returns on the ETA's website, and then have them reviewed/ verified by their tax advisor(s). Prior to electronically submitting the income tax return(s), both the taxpayer and the tax advisor are required to sign-off the income tax return.

Upon submitting the income tax return, the taxpayer will be required to pay the tax due through one of the following methods:

- Bank transfer through the taxpayer's own bank; or
- Using smart card to pay/ transfer the tax due to the ETA; or
- Through the banks/ the National Post Authority with which the ETA has specific agreements.

E-invoicing system in Egypt

As part of the digital transformation for the tax government practice in Egypt and following the introduction of the e-filing mechanism, the ministry of finance has released decree no 188 of 2020 for introducing the new e-invoicing system.

In July 2021, ministerial decree no 1206 of 2021 was issued obligating all governmental bodies not to accept any paper invoices from any of their suppliers as of October 1, 2021. Therefore, any company dealing with any governmental body must apply the e-invoicing system before that date.

That as of April 1, 2023, paper invoices will not be considered in proving costs or expenses when submitting tax returns for income tax, as well as when deducting or refunding value-added tax, and electronic invoices will be considered only.

Recently, law 30 was introduced requiring taxpayers to submit electronic invoices or receipts for costs and expenses, to be considered eligible for deduction. This requirement shall be effective for invoices starting from July 2023, and from January 2025 for receipts. The periods can be extended for a maximum of one year. However, the finance minister may exempt specific costs and expenses from such proof.

Deductions allowed while calculating the taxable income

Deductions are allowed for any costs/expenses that are necessarily incurred in realising them; noting that in order for such deductions to be certified by the ETA, certain conditions must be met.

Deductions are particularly allowed for the following:

- Interest on business loans, or the portion of a loan used for business purposes; provided that certain conditions are fulfilled.
- Tax depreciation and tax paid and borne, except that paid or payable under the Income Tax Law,
- Social Insurance premiums paid on behalf of workers and the company;
- Private saving, or pension plans, but not exceeding 20% of the total salaries of the workers per year;
- Insurance premiums against the ill health of the business owner, to a maximum of EGP 10,000 per year or 15%, whichever is lower; and
- Donations to the Egyptian Government, local administrative units and other public juridical persons.

Deductions are not allowed for the following:

- Reserves and appropriations,
- Financial fines and penalties,
- Income tax payable,
- Loan interest, which exceeds twice the credit and discount rate announced by the Central Bank of Egypt or not complied with the arm's length principle; and
- Loan interest and other debts paid to non-taxable or tax-exempt natural persons (i.e. individuals).

Permanent Establishment ("PE")

A PE should mean every fixed place of work, through which all or some works of projects of a person not residing in Egypt are executed; comprising in particular the following:

- Headquarter,
- Branches,
- Building used as a sale outlet,
- Office,
- Factory,
- Workshop,
- Mine, oilfield or gas well, quarry, or any other place for extraction of natural resources, including timber, or any other product from the forests,
- Farm or saplings; and
- Building site, construction or assembly project, installation, or supervisory activities associated with any of that.

Recently, law 30 was issued and introduced certain updates as follows:

Fixed Place of Business PE : A new 90-day threshold has been introduced. A "Fixed Place of Business" PE is triggered if certain activities occur in Egypt for an aggregate period of 90 days within any 12-month period. This includes construction projects and natural resource-related activities.

Service PE: This is a newly added definition. A Service PE exists when a non-resident entity provides services in Egypt for an aggregate period of 90 days within any 12-month period. It's triggered when services are delivered through employees or entities engaged by the non-resident.

Agency PE: The definition of Agency PE has been broadened to include individuals working in Egypt on behalf of a foreign enterprise, and it provides further clarity on the PE triggers.

Insurance PE: A new definition has been added for non-resident entities collecting premiums or insuring risks in Egypt through agents.

PE Exclusions: There are limitations to the PE exclusions, which may increase PE risk triggers for non-residents. The "Closely related person" provisions have been introduced, affecting certain preparatory or auxiliary activities.

In addition to the above, a person working on account of a non-resident company of Egypt shall create a PE for the non-resident company in Egypt, if such person has the authority or the power to conclude/ratify the contracts in the name of such company, unless the aspects of his/her activity are limited to purchasing commodities or goods for the non-resident company.

Also a person working on behalf of a non-resident company should create a PE for such company in Egypt if he dedicates most or all of his time for it.

Losses (changed font to match headings)

Prior year losses can be used to reduce the taxable profit of a company in a subsequent year. In other words, if there is a remaining portion of a loss incurred, it can be transferred annually to the following years. Losses can be carried forward for up to 5 years.

Carry forward of tax losses will be denied, if the following conditions are collectively met within the time period of three years:

- If a change in the company's ownership takes place and the percentage of change of ownership exceeds 50% of shares, quotes, or voting rights of the company, and
- The company's activities are changed, and
- The company is either a Joint Stock Company or a Company Limited by Shares whose shares are not listed on the Egyptian Stock Exchange.

If none of the above mentioned conditions are met, the company has the right to carry forward the losses provided that those conditions, or any of them, do not occur over the subsequent three years.

It is worth noting here that capital gains (i.e. gains arising from the sale of securities) cannot be offset against the operational carried forward tax losses, discussed above. Please refer to the "capital gains and losses on securities" section, for more information in this regard.

Withholding tax ("WHT")

Any Egyptian entity has a liability for WHT against any payments in excess of EGP 300 made to any local supplier of goods or services at the time of payment. Payments made to local entities. The rates of WHT applicable to local payments for local services and supplies are as follows:

- Contracting and supplying 1%
- All types of services 3%
- Commissions 5%

Withholding tax (“WHT”)...(cont’d)

These payments of WHT are prepayments of the provider’s/ supplier’s liability to Income Tax. The amounts received are included in the provider’s / supplier’s income and subject to income tax under the prescribed rates. However, a tax credit is provided for the WHT already paid against the total tax liability.

Payments made to non-residents

Egyptian resident companies making payments of interests, royalties or services to non-resident ones, should generally be subject to WHT in Egypt at the rate of 20%, at the time of making such payments.

However, the 20% WHT rate applied on such payments may be reduced or even eliminated as per the provisions of the relevant double tax treaty (“DTT”) signed between Egypt and the country where the recipient of such payment is resident (if any).

It is worth mentioning that in the past, interests paid regarding loans with a loan term of 3 years or more used to be exempt from WHT. This exemption has been abolished by the new amendments.

Dividend distributions

Dividend distributions made by an Egyptian resident company to resident/non-resident individuals or companies, are subject to WHT at the rate of 10% in Egypt, provided they are unlisted on the Egyptian stock exchange.

Additionally, dividend distributions made by Egyptian listed companies to tax residents or non-residents should be subject to WHT at a flat rate of 5%.

Having said that, it is notable that the WHT applied in Egypt on dividend distributions made by Egyptian resident companies to non-resident ones, could be further reduced or even eliminated as per the provisions of the relevant DTT concluded between Egypt and the country where the recipient of such dividends is resident (if any).

Dividends income received by Egyptian resident companies from resident or nonresident ones, should be subject to the participation exemption rule; whereby, 90% of the dividends income received would be exempt from CIT (i.e. only 10% of the dividends income would be taxable); which in turn means that such dividend income would be subject to effective CIT rate of 2.25% upon applying the participation exemption rule (upon meeting the participation exemption conditions).

It is important to note that, the recently introduced, Law No.30 stipulated that the tax due on dividends paid by a resident distributor to a resident entity shall be deducted from the tax to be paid (i.e., tax offset) on dividends distributed by the resident entity to a third resident entity, provided certain conditions are met.

The Egyptian tax authority intends to mitigate tax inefficiencies related to resident multilayer structures, for the purpose of reducing the tax leakage caused by the distribution of dividends through a multi-layered structure in Egypt. Law No.30 eliminates/reduces double taxation on dividends distributed through a multi-layered structure.

Capital gains tax (“CGT”)

Capital gains on securities

Sale of listed securities: Capital gains realized from the sale of listed Egyptian securities by resident shareholders are subject to 10% capital gains tax (“CGT”).

On the other hand, in case of non-resident shareholders, capital gains realized on the sale of listed securities should be exempt from CGT.

Also, it is important to note that the newly introduced law 30, exempts capital gains realised upon a share swap between a listed and a non-listed company. In case of sale of such shares, the acquisition cost before the swap will be the base to calculate the capital gain.

Sale of unlisted securities: Capital gains realized from the sale of unlisted Egyptian securities by both resident and non-resident shareholders, are subject to CGT at the rate of 22.5% in Egypt. However, such tax may be eliminated as per the provisions of a relevant DTT (if any) in case the supporting documents are provided.

However, new CGT guidelines have been introduced relating to the sale of shares by non-residents, published in December 2020.

The Guidelines have set down the required procedures and documentation for CGT filing by non-residents, along with the financial penalties and legal sanctions for non-compliance.

Moreover, in case of individual shareholders, the capital gains realized from the sale of unlisted securities should be added to their taxable income; hence, subject to personal income tax (“PIT”) with the highest tax bracket being 27.5%, as tackled in the PIT section.

It's worth mentioning that the newly amended tax law 30 introduces a range of incentives for capital gains and establishes specific regulations, outlined below:

If shares are offered on the EGX for the first time (IPO):

- Within two years from the date of issuance of the revised tax law (before June 15, 2025), 50% of the actual capital gains will be exempt. While, after two years, only 25% of the capital gains will be exempt from taxation.
- If additional tranches of shares are offered after the issuance date of the revised tax law (after June 15, 2023), 25% of the realized capital gains will not be subject to capital gains tax, provided certain conditions are met.

EGX trading incentives:

- Additional cost (capped by 0.5% of both selling and buying transactions) would be allowed as a deductible cost, thus decreasing gains subject to tax on capital gains.
- Under certain constraints and limitations, a natural person will be allowed to reduce capital gains by cost equivalent to interest cost calculated based on shares acquisition cost and Central Bank of Egypt's interest rate.

Capital losses on securities

Capital losses realized from the sale of securities can be offset against the capital gains arising during the same tax year from the sale of securities to the extent that they both arise in the same tax year.

Non-compliance penalties

Non-compliance of capital gains will result in imposing an annual delay fine, calculated as the credit and discount rate announced by the Central Bank of Egypt (which is currently 20.25%) plus 2%, divided by 12 months for each month or portion of a month late.

Personal income tax

In general, this tax is withheld at source from payments to Egyptians and foreign nationals working in Egypt regardless of the source of payment and for payments made by an Egyptian source regardless of where the work is performed.

A tax is imposed on the total net income of the resident individuals for income earned in Egypt as well as the income earned outside Egypt for resident individuals whose center of commercial, industrial or professional activities is in Egypt.

Investment income (i.e. dividends and capital gains) realized by Egyptian tax residents from sources outside Egypt (i.e. from their investments abroad) is taxable in Egypt, as it is defined, under the Egyptian income tax law, as a commercial income.

Tax is also imposed on the income of non-resident individuals for their income earned in Egypt.

Rates of tax

Employees are taxed according to progressive tax brackets; and are entitled to annual salary tax exemptions (EGP 15,000):

Non-resident employees are subject to tax at the same tax brackets mentioned above with also the annual exemption of EGP 15,000.

The tax due is to be calculated at the rate noted for each bracket. Per Law No.30 the personal income tax brackets have increased up to a maximum of 27.5%, for taxpayers with annual income exceeding EGP1.2 million.

The first income tax bracket (subject to 0% tax) is broadened from EGP 15k to 30k.

Taxable income

Taxable income is defined as payment from employment, including salaries, wages, overtime, bonuses, paid leave, commissions, profit shares and all cash and in-kind benefits. Reimbursement for expenses of spouses and dependents is also considered taxable income. In addition, school tuition fees, long-term living expenses, and overseas and hardship allowances are taxable.

The Income Tax Law exempts some payments of expenses and benefits paid to individuals, including:

- Severance pay
- Meals distributed to workers
- Employees' subscriptions to special insurance funds
- End of service payments and pensions
- Employees' payments of Social Insurance

Administration

Egyptian resident employers are required to withhold the tax payable from the employees' salaries according to the PIT rates, and remit it to the tax authority within 15 days of the end of the month in which the payment has been made.

The resident company is also required to complete quarterly salary returns and submit them to the tax authority, in addition to an annual reconciling return that should be submitted by the end of January of each year.

If the employer is not resident in Egypt, or has no centre or establishment in Egypt, the obligation to deliver the tax transfers to the employee, who must calculate his Egyptian tax liability and submit an individual tax return to the appropriate tax district office.

The individual tax return should be submitted by the employee on an annual basis during the period starting the 1st of January until the 31st of March of each year.

Value Added Tax (VAT)

General Overview

VAT is a consumption tax imposed at each stage in the chain of production and distribution (transaction-based tax), which should be collected by businesses on behalf of the ETA. VAT is reported on a self-assessment basis.

The VAT law replaced the previous General Sales Tax ("GST") law no. 11 for the year 1991. As the standard rate is 13% for FY 2016 – FY 2017 (June 30th). Starting from July 1st 2017, the VAT rate was raised to 14% applicable on all the goods and services.

The above should apply except for machinery and equipment that are used in producing goods or rendering service that will be subject to 5% (except for buses & passenger cars) upon fulfilling the criteria.

VAT is applied to a broader range of goods and services, while a number of basic goods and services which affects the low-income earners are exempt, in addition to other exemptions listed in the law.

New VAT amendments have been issued by virtue of law no.3 of 2022 published in the official gazette on January 2022 and its executive regulation issued by the MoF decree No. 24 on March 2023 which includes key updates to the VAT law no.67 of 2016:

1) Machinery and equipments

- Suspension of VAT applicable on machinery and equipments whether imported or purchased from the local market for "industrial purposes" for a one year period from the date of custom release or purchase, noting that such period might be extended for an additional year maximum - It's important to highlight that this is not an applicable option for service providing companies.
- If proved by the ETA that such machinery and equipments were actually used for same purposes it was purchased for "industrial production" during this period, then it shall be exempt from VAT.
- If such a period ended without the use of machines or equipments in the industrial production then VAT and the additional taxes become due from the date of purchase/custom release till payment date.

2) Simplified Vendor Registration System

- Every non-resident and unregistered person who does not practice an activity under a permanent establishment, sell goods or provide services to a person who is not registered inside the country, is obliged to apply for registration under the simplified vendor registration system.
- Such system should be enforced within six months for services and within two years for commodities starting from effective date of the law.
- Entities registered do not have the right to deduct their input VAT. However, they have the right to refund their input VAT that is necessary to perform their activities in A) Business-to-Consumer (B2C) Services:
- The ministry of finance has issued the decree no 160 of the Y 2023 that includes guidance for the VAT on the digital & other remote services (the services) provided by non-residents.

Non-resident entities providing services directly to consumers (B2C), are required to follow the steps below:

1. Simplified VAT Registration: Non-resident service providers must complete a simplified VAT registration with the Egyptian Tax Authority.
2. VAT Collection and Remittance: Once registered, non-resident entities are obligated to collect the applicable VAT on the services they offer to consumers. They must also remit the collected VAT to the tax authority.
3. Registration Deadline: Non-resident entities must complete the registration process by June 22, 2023.

For services provided to other businesses (B2B), the following rules apply:

1. Reverse Charge Mechanism: The responsibility for VAT payment shifts to the service recipient (the business receiving the services) through the reverse charge mechanism. This means the recipient business calculates and pays the VAT on behalf of the non-resident service provider.
2. Voluntary Registration: Non-resident entities have the option to voluntarily register for the simplified VAT registration process. If they choose to do so:
 - They must collect the applicable VAT on their services.
 - They must remit the collected VAT to the tax authority.
 - In this case, the service recipient (the business) is not responsible for accounting or settling the VAT.

Additionally, a recent Ministry decree, no. 538, has canceled the "second" paragraph of article (52 bis) from the executive regulations of decree no. 518. This paragraph allowed companies to pay VAT in Egyptian Pounds for amounts initially collected in foreign currency, provided certain conditions were met.

Now, any invoices related to services or goods issued and collected in a foreign currency must be sent to the Egyptian Tax Authority (ETA) in the same foreign currency through the ETA's portal.

Starting from December 24, 2023, as directed by the Head of the Egyptian Tax Authority, companies must declare their foreign currency invoices in USD. If invoices are in a currency other than USD, companies should declare the equivalent amount in USD until the ETA's portal includes more currency options in future updates.

General considerations mentioned in Law no.3.

Advertising Services

Advertising services have become subject to VAT at the general rate of 14%, except for the following types which are exempt from VAT:

- The advertisements issued for the purpose of notifying the public of the orders issued by a public authority or raising awareness including the advertising issued by government tourism and information service departments
- The advertisements of donations for medical treatment and health care at hospitals and governmental institutes
- Mandatory sale, election, job seekers and lost people advertising
- The advertisement pertaining to regulating work within establishments

Schedule Tax

The new amendments have rephrased the provisions related to some goods and services. However, the same schedule tax rates are maintained.

The new item that was added is the commercial identity and customer relationship that shall be subject to schedule tax at 10% which is calculated on 10% of the rental and/or selling value as a tax base.

Exemptions

The new amendments have rephrased the provision related to some goods and services.

Reverse charge mechanism

The VAT law introduced the reverse charge mechanism in Egypt for the first time, whereby transactions involving non-residents providing services to resident entities have become subject to VAT in Egypt.

The non-resident persons, selling or providing taxable commodities or services to resident persons in Egypt, must appoint a fiscal representative or an agent, in order to assume all the undertakings, including registration, payment of the tax, the additional tax and any other due taxes; otherwise, the resident person will be liable to settle the tax and such other due taxes through the reverse charge mechanism.

Input VAT deduction

The registrants whom are providing a taxable commodities or services have the right to deduct the input VAT incurred on all of their direct, indirect costs and inputs.

The credit balance in the return will be carried forward to the subsequent periods until the deduction is fully covered.

Starting from 1 July 2022, companies will only have the right to deduct their input taxes based on the availability of e-invoices received.

Tax exemption

One of the government's purposes of the tax exemptions is to give incentives to some activities, such as the education services. The government exempts the educational services, books, and the pamphlets.

In addition, there are some other exemptions, such as the products and services for armament, defense and national security, as well as the agreements concluded between the Egyptian government and foreign countries, the international and regional organizations, the oil & Gas, and mining agreements.

There are some exempted commodities and services which are used on a daily basis, such as dairy products, banking operations, and transportations for passengers.

Registration requirements

- Businesses supplying taxable goods and services, reaching the threshold (i.e. EGP 500K for any 12-month period) under the VAT law are obligated to register within 30 days from the date of reaching the VAT registration threshold.
- The tax inspectorate must notify the taxpayer of his registration within fourteen days following the date of submission of the registration application. The taxpayer shall be governed by the provision of the law as of the date of registration.
- Every producer, provider or importer of a commodity/ service subject to the schedule tax should have himself registered as per the Egyptian VAT Law, regardless the volume of sales or production (regardless of the level of turnover).

Administration

The VAT returns must be submitted on a monthly basis, and the deadline for submitting the tax returns is within one month from the end of each tax period based on the Unified Tax procedures Law.

As mentioned earlier, all companies must register through the tax authority's website to be able to submit all their kinds of tax forms online as hard copy tax returns are not acceptable anymore. Regarding the ETA's online portal usage - subscription, renewal fees of 325 EGP should be paid annually to renew the subscription.

E-filing of VAT returns

The ETA has introduced a new e-filing system for the submission of the VAT returns, hence taxpayers will be required to submit their VAT returns (i.e. monthly VAT and/or schedule returns) electronically through the ETA's website, starting from January 2019. Accordingly, the manual filing of VAT returns will not be acceptable as of the latter date mentioned.

The account created by taxpayers for the e-filing of corporate income tax returns shall be used to access the ETA's website. Such account will provide taxpayers the access for the e-filing of all relevant taxes, including VAT. Taxpayers will be required to prepare their monthly VAT returns online by uploading the required excel sheets (i.e. sales, purchases and adjustments sheets) on the ETA's website.

Customs duty

Custom duty is a liability that rests with the person who is importing the goods from abroad.

There are two types of importation in Egypt, and these are:

1) Temporary importation

A contractor who intends to re-export plants and equipment after expiration of a contract may import the plant and equipment into Egypt free of customs duties if certain requirements were met.

Under all circumstances, a fee at a rate of 2% monthly and up to 20% annually of the amount of customs duty due is imposed for each year or partial year the plant or equipment remains in Egypt before re-export. Noting that it is effective for a period of one year and may be renewed after the approval of the Customs Authority.

Also, Customs tax amounting to (1%) of the stipulated customs tax on the date of the temporary release shall be collected for every month or part thereof with a maximum of (10%) annually for equipment, new and renewable energy components and their spare parts

2) Final release

Customs duties are imposed on imported goods at rates that vary according to official categories. Average rates of duties range between 0% and 60% of the cost, insurance and freight (CIF) value.

Higher rates (up to 135%) are applied for passenger cars, nonessential and luxury consumer goods, and alcoholic beverages.

With regard to the importation of machines and equipment to be used for industrial purposes, the rate of customs duty that applies in this case ranges from 0% to 5% depending on the exact type of the good (determined according to its customs code). However, it is worth noting that trucks and heavy equipment are generally subject to customs duty between the rates of 10% to 20%.

The applicable import VAT imposed on such machines and equipment shall be a reduced rate of 5% VAT in case of providing the documentation that confirms the usage of such machines/equipment in the production or service provision.

In Egypt, the government is flexible with importing second-hand equipment, with an aim to encourage foreign investment.

Customs Agreement with The EU and GAFTA

The import / customs duty could be eliminated or reduced depending on the country of origin of the imported goods. There are several agreements in place signed by Egypt, which are designated to serve this purpose. The most famous agreements are:

The European Union ("EU") free trade agreement, where the presence of EUR 1 certificate (along with other documents to prove country of origin) could lead to applying 0% customs duty rate.

The "Greater Arab Free Trade Area" (GAFTA) is a free trade zone that came into existence in 1997. It was founded by the GCC countries, Egypt, Iraq, Lebanon, Libya, Morocco, Sudan, Syria and Tunisia. Goods originating from one of these countries should not be subject to customs duty rate.

Other taxes

There are two distinct types of taxes:

- Nominal Stamp Tax, which is imposed on certain documents, regardless of their value; at the rate of approx EGP 1 per paper per each copy of the document. and,
- Proportional Stamp Tax, which is imposed at prescribed rates on the values of certain financial transactions.

The main situations in which stamp tax can arise are:

- Land registration/property transfers/transfer of deeds (including lease agreements)
- Banking Transactions
- Payments by Governmental Bodies
- Securities' sale transactions.

Stamp tax on banking transactions

The stamp tax on Banks' loans is applicable on the Egyptian banks and the branches of foreign banks in Egypt with the exception to the non-resident banks. The stamp tax is imposed at the rate of 4 per thousand (i.e. 0.4%) annually, and is applied on the beginning balance of each quarter during the year, in addition to the amount of utilization (the amount of utilization from the credit facilities balance granted by banks during each quarter). It is worth noting that such stamp tax is due within 7 days following the end of each quarter during the year.

Stamp tax on sale/purchase of securities

The stamp tax is applied on the total proceeds realized from selling any kind of securities regardless they are Egyptian or foreign, listed or non-listed and without deducting any costs (i.e. value of the transaction).

There are very limited exemptions provided in the stamp tax law. In such case, the buyer and seller each should apply the stamp duty on the total proceeds based on the following rates (for the sale transaction less than 33%):

- In case of non-resident buyer/seller (listed or unlisted shares on the EGX), 0.125%
- In case of resident buyer/seller (unlisted shares) 0.05%, while listed shares are exempt from stamp tax.

However, if the sale transaction exceeds 33%, then such transaction would be considered as an acquisition transaction, thus should be subject to 0.3% stamp tax.

The 0.3% is imposed on each of the buyer and the seller (i.e. a total of 0.6% for both of them) with respect to the acquisition or existing investment, where either of the following conditions is met:

- If the sale and purchase transaction involves 33% or more of the value or the number of shares or voting rights in a resident company; or
- If the sale and purchase transaction involves 33% or more of the assets or the liabilities of a resident company by another resident company in return of shares in the acquiring company.

In both cases above, the buyer and seller should each pay the 0.3% stamp duty on the gross transaction value without deducting any cost. If the sum of sale and purchase transactions performed by one person in one entity has reached the limit mentioned above (i.e., 33% or more) through 2 years from the first transaction by such a person and from the date of this law, the whole transaction should be considered as one transaction and consequently be subject to the 0.3% stamp duty. The seller shall pay 0.3% if he reaches the exit limit and the buyer shall also pay 0.3% when he reaches the acquisition limit and after deducting any stamp duty paid before.

It is worth noting, that this type of stamp tax is non deductible for corporate income tax purposes.

Other types of stamp tax

Payments made by governmental entities are subject to a 2.4% stamp tax (with certain exemptions), and it should be borne by the recipient, by means of withholding.

There are other types of stamp taxes, which are imposed at nominal rates and others that are imposed at proportional rates, depending on the nature of the transaction that has been undertaken and /or the document being exercised.

Other stamp taxes include the following:

- 1% on each life insurance premium and 2% on each premium on illnesses, bodily injuries or related civil liability, and on compulsory insurance premiums of any kind.
- 11% of the insurance consideration for land, river, sea, and air transport, with a minimum of one pound.
- 11% on each premium of other insurances and the consideration of these insurances, including insurance against war risks, with a minimum of one pound.

Real estate tax

Real estate tax is levied on all constructed real estate units across the country with annual rental value exceeding EGP 1,200 for commercial units, and EGP 24,000 for residential units.

The tax rate is 10% of the annual rental value of the taxable real estate.

Committees, called “assessment committees”, are formed in every governorate, to be responsible for assessing the market value of the constructed real estate units. The assessment shall be based on a qualitative classification of these real estate units, according to the building standard, the geographical position and the annexed utilities.

The annual assessment is applicable for a five year term and then reassessment procedures will be initiated from one year to three years before the end of each term. However, based on recent amendments, the application of the annual rental value assessed for the last five years (i.e. from 2013 to 2018) will be extended for three more years until 2021.

In determining the annual rental value, a certain percentage (which differs for residential and non-residential / commercial realities) can be reduced for allowable deductible expenses which are borne by the taxpayer for maintenance, etc.

The tax is assessed in January of each year and can be collected in two equal installments at the end of June and December of the same year. Nevertheless, the taxpayer has the option to pay the whole tax amount on the date of the first installment (i.e. at the end of June).

A new article was recently introduced to 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.

Penalties

On October 2020, the Egyptian Government issued the Unified Tax Procedures Law amending certain articles of the income tax law, VAT, stamp tax, state tax and other similar taxes.

The new law stated financial penalties that should apply if the taxpayer failed to comply with the tax laws (in addition to a delay fine that should also apply for each month late in paying the taxes due). The financial penalties are as follows:

Penalty of EGP 3K up to EGP 50K applicable in the below cases:

Non-compliance with the deadlines of submitting the different types of tax returns (such as: corporate income tax, payroll tax, VAT, and state development tax) for a period not exceeding 60 days from the tax return due date.

- Including false information in the tax returns.
- Non-cooperation during tax audits.
- Non-compliance with Transfer Pricing three-tier filing requirements.
- The above-mentioned penalty could be doubled or tripled in case of recurrence.

Penalty of EGP 50K up to EGP 2 million applicable in the below cases:

- Non submission of tax returns for a period exceeding 60 days following their due date.
- The above-mentioned penalty could be doubled or tripled in case of recurrence within a three year period.

Penalty of EGP 20K up to EGP 100K applicable in the below cases:

- The taxpayer not notifying the ETA of change(s) in the company's tax registration information within a period of 30 days of such change.



Transfer pricing (“TP”)

Since the issuance of the 2005 law, corporate tax returns have had a disclosure requirement for related party transactions and TP. In 2010, the Egyptian Tax Authority (“ETA”) issued the first part of the TP Guidelines, which followed the Organization of Economic Cooperation and Developments (OECD) TP Guidelines.

The first part of the Egyptian TP Guidelines (“ETPG”), provided guidance on the following points: the arm’s-length principle, the method of establishing comparability, the choice of the most appropriate TP method(s) and documentation requirements.

The Egyptian Minister of Finance has issued a Ministerial Decree published in the official Gazette on the 22 of May 2018, amending some provisions of the executive regulations of the income tax law that relates to TP. Such amendments were a prelude to the Final ETPG which were released on the 23 of October 2018 with the latest amendments being made in December 2020.

The headline changes presented in the updated ETPG are the three- tiered approach to TP documentation and the introduction of the advance pricing agreement (“APA”) program.

The Egyptian Tax Authority has issued comprehensive explanatory guidelines to provide clarity to taxpayers on specific aspects of Transfer Pricing. These guidelines aim to clarify the implications of Articles 12 and 13 within the Unified Tax Procedure Law (UTPL) No. 206 and 211 of 2020.

The Three-tiered approach to Transfer Pricing documentation

The updated ETPG introduced the three tiered approach to Transfer Pricing documentation and it includes the mandatory filing of namely, the master file, local file and the country by country (“CbCR”) reporting. The ETA confirms that the new documentation requirements shall be implemented for fiscal years ending the 31 December 2018, and it shall be applied on the consolidated reporting periods (for financial statement purposes) and not the taxable years or the financial reporting periods of subsidiary entities.

The CbCR facilitates the reporting process for multinational enterprises (“MNE”). The CbC report provides a template for MNEs to report annually and for each jurisdiction the necessary information relating to the MNE’s global allocation of income, taxes paid, and other indicators regarding the economic activity in order to assess the overall related party transactions taking place between affiliated enterprises within the same group.

The threshold for the CbCR are set out in the ETPG as follows:

- Egyptian parented groups with a foreign subsidiary(s) with an annual consolidated group revenue of equal or exceeding Egyptian Pounds (“EGP”) 3 billion (145 million Euro) will be required to prepare and file a report with the ETA.
- Egyptian subsidiaries of foreign parented groups will be subject to the OECD threshold of 750 million Euro and required to file a report with the jurisdiction in which the ultimate parent entity is resident and there is no secondary submission requirements for the CbCR in Egypt in this case.
- The ETPG confirms that the taxpayers are required to prepare and submit their TP documentation on an annual basis.



Documentation filing deadlines

- The master file should be prepared in accordance to the taxpayer group's ultimate parent's tax return filing date and made available to the ETA in "due course".
- The local file must be submitted to the ETA within two months following the date of filing the tax return.
- The CbCR should generally be submitted one year following the close of the relevant financial year that it covers. The first CbCR should be prepared for the group's financial year ending December 2018.
- All CbCR notifications should be made no later than the last day of the fiscal year to which the CbCR relates.
- Free zone entities are required to prepare and submit CbCR notifications in case these entities are being consolidated and included in the CbCR that will be submitted by the ultimate parent entity. If a parent or a holding company is located in a free zone area and is transacting with other taxable entities outside the free zone areas, the entities (located outside the free zone) are obligated to prepare and submit Master File and it shall be submitted alongside the Local File (within two months of the submission of the CITR).

Non-compliance penalties

Effective 20th of October, 2020, taxpayers are subject to a penalty of EGP 3k up to EGP 50k for non-compliance with the TP three-tier filing requirements (Master file, Local file, and CbCR). This penalty would be doubled or tripled in case of recurrence. Additionally, non-disclosure of the related party transactions within the annual corporate tax return is now subject to a penalty of 1% of the value of the undisclosed related party transactions.

Furthermore, the following penalties shall apply, effective 4th of December 2020:

- 3% of the total value of the related party transactions in case of not submitting the local file.
- 3% of the total value of the related party transactions in case of not submitting the master file.
- 2% of the total value of the related party transactions in case of not submitting the CbCR or the CbCR notification.

In case of multiple breaches to the above listed TP filing requirements, the penalty shall not exceed 3% of the value of the related party transactions.

Advance Pricing Agreement ("APA")

The APA system provides Egyptian taxpayers with the benefit of agreeing in advance with the ETA on the methods to be followed by the taxpayer to determine arm's length arrangements acceptable for tax purposes when it comes to related party transactions.

Such APA program should deliver benefits to the taxpayers such as the certainty on TP methods, tax outcomes, increased transparency and reduced risks of audit and penalties.

The APA program is introduced for the first time in Egypt and accordingly, the ETA decided to restrict its application to the unilateral APA(s) at this stage and to introduce the bilateral and multilateral APA(s) in the future. In addition, the option to apply for the APA is open to all the taxpayers subject to the provisions of the law including the Permanent establishments ("PE").

The process of applying for and concluding the unilateral APA may take between 3 to 6 months and this may vary according to the case at hand. The stages of APA administration and application process include:

- A written request for a pre-filing meeting by the taxpayer at least 6 months before an APA is proposed to take effect, including an information package containing information prescribed by the ETA.
- Notification of consensus from the ETA following the meeting followed by submission of an APA application form and accompanying documentation by the taxpayer.
- Review of the APA application and the documentation package by the ETA.
- Evaluation and negotiation of the APA terms followed by APA acceptance and signing (or declining the application)
- Annual filing of an APA compliance report by the taxpayer within 2 months of the tax return filing.

As per the Final Transfer Pricing guidelines, the acceptable methods are listed as follows:

- Comparable Uncontrolled Price Method;
- Cost plus Method;
- Resale Price Method;
- Profit Split Method; and
- Transactional Net Margin Method.

Following the updated guidelines, the hierarchy is no longer applicable in applying the transfer pricing methods. In addition, the updated ETPG allows taxpayers to use other methods in the event that none of the listed methods can be applied on the considered transactions.

However, the ETA expects the taxpayers to first maintain and prepare sufficient documentation to explain the reason why those methods cannot be reliably applied on the transaction. Moreover, the updated ETPG includes a statement the ETA considers the "Global Formulary apportionment" as the least reliable method to be used in determining the arm's length price of the controlled transaction. And in any case, the comparability analysis should be performed to select the appropriate transfer pricing method.

Base Erosion and Profit Shifting ("BEPS")

It is notable that Egypt joined the BEPS Project that was launched by the member states of the OECD and the G20 countries. Such initiative aimed at stopping multinational companies from evading taxes, and specifically targets situations which may result in aggressive tax planning.

"Aligning the tax outcomes with value creation" is the main objective of the BEPS project that it is aiming to achieve.

Egypt has signed the inclusive framework agreement with the OECD; which entails the adoption of four minimum standard actions as a necessity in a specific time-frame agreed upon with the OECD.

The four minimum standard actions are as follows:

1. **Harmful tax practices:** This action focuses on the harmful tax competition in light of the tax systems such as preferential tax regimes as well as tax havens.

Base Erosion and Profit Shifting (“BEPS”)...(cont’d)

2. **Treaty abuse:** This action includes specific measures that aim at combating the abuse of double tax treaties to avoid taxation. This includes the Limitation of Benefits (“LoB”) test which mainly limits benefiting from treaty provisions in case the taxpayer failed to meet certain requirements (such as substances, etc.); and the Principal Purpose Test (“PPT”) which denies the treaty benefits if ‘one’ of the principal purposes of such transaction/arrangement was to avoid tax.
3. **TP documentation:** Transfer pricing is one of the main issues that the BEPS project aimed to focus on. This action has introduced a three tiered approach for proper transfer pricing documentation; comprising the local file, master file and the country by country reporting. Please refer to the Transfer pricing section.
4. **Dispute resolution:** The main purpose of this action is to introduce the mechanisms/procedures that would facilitate the process of dispute resolution between taxpayers and tax authorities, via adopting an exchange of information mechanism that would help to interact with the relevant authorities to gather information about taxpayers and to determine the country which has the taxation rights under certain transactions/structures.

Multilateral instrument (“MLI”)

The MLI has been put in place by the OECD as a mechanism to apply the changes that resulted from the BEPS project into actual application through updating the DTT network automatically. This means that countries that sign the MLI will adopt the changes that are made to the DTT articles without having to re-negotiate those treaties. Its main purpose is to apply the changes brought by the BEPS project into action on a global level simultaneously so that international tax standards would become gradually unified.

Egypt has signed the MLI on the 7th of June 2017; which has been ratified and was effective as of 1st of January 2021. Egypt has opted to apply the Principle Purpose Test (“PPT”), accordingly, if the Egyptian Tax Authority views that the main purpose of a specific arrangement/transaction or structure is tax evasion, then treaty benefits would be denied.

General Anti Avoidance Rules (“GAAR”)

The GAAR is a tool to manage the risk of tax avoidance and combat abusive tax arbitrage arrangements, and has been introduced in Egypt in 2014, long time before becoming a member of the BEPS project. It was mainly introduced to strengthen the ETA's anti-avoidance strategy and help it tackle abusive tax avoidance schemes.

The primary objective of the GAAR is to deter taxpayers from entering into abusive arrangements for the purpose of obtaining a tax advantage without having proper business rationale or substance in place; hence, similar to the PPT test that has been introduced by the BEPS Project.

Under the GAAR rules, the ETA has the right to disregard a transaction/structure, if its main purpose was revealed to get tax advantage of tax treaty benefits.



Pillar Two

Background

On 1 July 2021 and 8 October 2021, the Organisation for Economic Cooperation and Development (OECD) Inclusive Framework (IF) issued a 'Statement' focused on addressing the remaining key challenges of base erosion and profit shifting (BEPS) arising from the digitalization of the global economy.

The Statement proposed a 'Two Pillar' Solution, comprised of (i) Pillar One which aims to ensure a fairer distribution of taxing rights is established with respect to the profits of large multinational enterprises (MNEs); and (ii) Pillar Two which implements a new global minimum Effective Tax Rate (ETR) of 15% for MNEs.

Pillar Two

Pillar Two aims to ensure an appropriate level of tax is paid by MNEs through a series of measures aimed at modernising the international tax system for modern businesses. The Subject to Tax Rule (STTR) and the Global Anti-Base Erosion (GloBE) are the two components of Pillar Two.

STTR

The STTR is a treaty based rule that applicable to intra-group payments from source countries that are subject to low nominal tax rates in the country of the payee. The STTR focuses on where a source country has given up taxing rights on certain outbound intra-group payments, and it should be able to recover some of those rights where the income in question is taxed in the state of the payee at a nominal rate below 9%. The STTR applies to interest, royalties and a defined set of other payments made between 'connected persons', including services.

The OECD IF members have committed to adopt the STTR when requested by other IF members that are developing countries, as well as developed countries. In October 2023, the OECD IF issued a multilateral instrument ("MLI") that brings into effect the STTR by allowing for multiple bilateral tax treaties to be amended at the same time. Signature of the MLI is underway and applicability of the STTR expected to be commence in the near future.

GloBE

The GloBE Rules are designed to ensure that in-scope MNE Groups are subject to a minimum level of tax on the income arising in each jurisdiction where they operate.

Over 140 countries have committed to implementing the GloBE measures, and for the rules to have effect, individual jurisdictions must implement them into domestic law.

The GloBE Rules require implementation into domestic law by individual countries before they become effective. The rules came into effect on 1 January 2024, and over 30 countries have introduced tax rules that put into force a 15% effective tax rate on in scope entities, as well as over 100 being expected to also introduce rules that will come into effect in 2024 or 2025.

In brief, the GloBE Rules have been designed with an objective of accommodating a diverse range of tax systems, including different tax consolidation rules, income allocation and entity classification rules, as well as rules for specific business structures such as joint ventures and minority interests.

The GloBE Rules contemplate three different mechanisms for assessing tax on a MNE's income, and MNEs will have to comply with the filing requirements for each applicable rule. The first opportunity to collect the top up tax is the so called Qualified Domestic Minimum Top-up Tax (QDMTT) which gives the choice for the low tax jurisdiction itself to collect the tax (relating to this country). Second in line is the so called Income Inclusion Rule (IIR), which generally imposes tax on the parent entities within the MNE group to the extent that the foreign subsidiaries of the Group are taxed at a rate less than 15% (after the application of the QDMTT in their respective countries, if any).

These two mechanisms are accompanied by a 'backstop' rule, known as the Undertaxed Profits Rule (UTPR) which permits the collection of any remaining Top-up Tax (after QDMTT and IIR are applied) globally by any country where the MNE is active, meaning where there are people and/or tangible assets on the ground. Under certain conditions, the QDMTT could be elevated to a safe harbour that switches off the IIR and UTPR in other jurisdictions.

Status of Pillar Two in Egypt

As a member of the OECD Inclusive Framework, Egypt has committed to implement Pillar Two. However, no official announcement has yet been made on how and when Egypt will be implementing Pillar Two.

What to expect?

Whilst Egypt levies corporate income tax at a rate of 22.5%, there is currently no visibility as to how the Pillar Two rules are expected to interact with the domestic tax rules in Egypt and further details should be expected in the near future once Egypt makes an official announcement on its implementation plan.

However, even if the rules will not be implemented in Egypt in 2024, Egypt headquartered MNEs with consolidated subsidiaries in at least one implementing jurisdiction, may still be required to undertake the GloBE calculations for all the jurisdictions and may have specific compliance requirements. Further guidance is expected from the OECD with respect to filing obligations / location of submission of the GloBE Information Return (GIR), in cases where the ultimate parent entity jurisdiction such as Egypt does not implement the rules in 2024.

As per the existing Pillar Two administrative guidance, where a MNE is headquartered in a location that has not implemented the rules, GIR filing would be made in a different location, i.e. the location of a 'designated filing entity', where the MNE has operations and the respective location has implemented the rules earlier than the MNE's headquarter location.

Audit and Financial Reporting Guidelines

Auditor Appointment

During the incorporation process, it is mandatory for a company to state the name of the auditor who will perform the audit in its Article of Association. Certain types of businesses, including banks and insurance companies, are required to have two auditors mentioned in their Articles of Association.

An auditor registered in the Registry of Accountants & Auditors (RAA) must be appointed by the general assembly of shareholders

Financial Year:

Financial statements and tax returns should typically be prepared annually for each financial year, which is usually a 12-month period. However, if a company is incorporated more than 7 days after the start of its financial year, it is allowed to have an extended financial year of up to 23 months. This provision allows flexibility for companies that are incorporated outside the usual financial year timeframe.

Filing Accounts:

Filing accounts must be prepared in accordance with the Egyptian Accounting Standards and submitted to the following authorities: the Egyptian Stock Market (mandatory for banks), the General Authority for Investment and Free Zones (GAFI), and the tax authority.

(There are no filing fees associated with these submissions)

Additionally, certain businesses, such as banks, are obligated to publish their annual financial statements in two national newspapers. These statements should be prepared in accordance with the Egyptian Accounting Principles. However, International Financial Accounting & Reporting Standards may be used for internal management purposes only.

Legal Books

To comply with the legal requirements, it is essential to maintain local books and records in handwritten Arabic. Electronic recording of the books and registers is also permitted. It is important to keep supporting documentation for all entries

Statute of Limitations:

The Egyptian Tax Law has stipulated a statute of limitation for a period of five years. In case no assessment takes place within the five years period, the Company's self-assessment is considered the final one (i.e. the corporate tax return).

Statutory financial statements :

Statutory financial statements in accordance with the Egyptian Accounting Standards (EAS) must be issued at least once a year.

Alignment with IFRS

EAS has made significant progress in aligning with IFRS, particularly with the recent amendments. Amendments worth mentioning, include Egyptian Accounting Standard No. (10) for fixed assets and Egyptian Accounting Standard No. (23) for intangible assets. These amendments, reissued in 2023, allowing for the use of the revaluation model in subsequent measurements of fixed assets and intangible assets. Furthermore, amendments related to the use of fair value in investment property standards have been introduced, bringing EAS closer to IFRS standards.

It is important to note that there are certain updates in IFRS that have not yet been adopted by EAS.

Key considerations

- In Egypt, companies are generally liable to corporate income tax ("CIT") at a flat rate of 22.5%
- Taxpayers should submit their tax returns electronically through self-assessment. An e-invoicing system came into effect as of April 1, 2023 .
- In Egypt, there are different aspects that should be considered to determine the PE status. Residency position is determined based on several criteria that should be taken into consideration.
- Generally, PIT is withheld on payments made to Egyptians and foreign nationals against work performed in Egypt and it is taxed at progressive tax brackets .
- Businesses that reach the threshold (i.e. EGP 500K) are obligated to register on the Egyptian VAT system. VAT is charged at a 14% rate (exemptions apply) and, it is reported on a self-assessment basis. A simplified vendor registration system and reverse charge mechanism are in place in Egypt.
- Customs duty, stamp tax, and real estate tax are all levied in Egypt subject to different mechanisms and separate conditions .
- Disclosure requirements are in place for related party transactions and a three-tiered approach to transfer pricing documentation must be complied with.
- New amendments on the Egyptian Income Tax Law are introduced in law no.30 amending some provisions of the tax law.



Additional legal considerations

Employment law

Employment contract

Employment contracts are required to be in writing, with three copies maintained in Arabic. The employer, employee and social insurance office each keep one copy of the employment contract, which must include certain information as specified in the Labour Law.

The labour contract should include the following contents:

- Name of the company and the employer “himself or the representative” and the address of the workplace.
- Name and personal details of the employee (name, address, date of birth, place of birth, ID, qualifications).
- Compensation (salary, bonuses, annual raises, benefits).
- Duration of the contract and its renewal regulations.
- Working hours, days off, leave.
- Confidentiality agreements and code of ethics, if any.
- Regulation for termination of the contract.

Probation period

If an employee is hired on probation, the employment contract should indicate the probationary period, which cannot exceed three months. Neither shall an employee be appointed under probation more than once for the same employer.

Types of employment contract

1. An indefinite employment contract is a contract which is not restricted to a limited period and does not have an expiration date (i.e. only includes the starting date). If the period of a definite employment contract expires and the company does not renew or terminate it before its end date, the contract is automatically becomes an indefinite contract (with no end date). This applies to Egyptian employees.
2. A definite employment contract is a contract which is issued for a definite period of time, has a start and an end date and will be terminated with the expiry of its period, although it may be renewed by express agreement between the two parties for one or more other periods through a new definite period contract according to Article No.106 from the Labour Law No.12 for year 2003.

Working hours

As per the Labour Law, employees should not work more than eight hours a day or 48 hours over a six day working week.

It is common practice that private sector employees work 5 days a week, usually Sunday to Thursday. The number of working hours may be increased to 9 hours a day including a one hour break.

Annual leave

An employee is entitled to a minimum annual paid leave of 21 days for every full year of service and a proportional amount if the period of service is less than one year (eligible to be used after 6 months of employment). This annual leave is increased to 30 days after the employee has worked for 10 consecutive years or is over 50 years old.

Public leave

In addition, every employee is entitled to full pay for official holidays designated by the Ministry of Manpower and Immigration, not to exceed 14 days a year.

If employees are required to work during official holidays, the employees are entitled to overtime (Paid at twice their normal rate). The weekly days off and the official holidays shall not be counted as part of the annual leave.

The employer is not entitled to terminate the employee's service due to sickness, unless the employee is absent due to sickness for more than 180 days in a year. After the employee utilizes all his entitled sick leave, a governmental medical committee should evaluate the employee's ability to work. The committee takes the final decision related to the employee's ability to work or not.

Performing pilgrimage or visiting Jerusalem

Regarding religious respects, the Labour Law stated that an employee who has spent five consecutive years in the service have the right to full paid leave for a period not exceeding one month for performing pilgrimage or to visit Jerusalem and such a leave shall be enjoyed only once during the entire period of service.

Maternity and child care leave

A female having spent 10 months in the service of an employer or more shall be entitled to a maternity leave of 90 days with full wage payment including the period preceding giving birth. The female employee is not entitled to this maternity leave for more than twice during her working period.

During the 24 months following the date of child birth, she has the right to be excused from work for one hour daily for feeding her child.

Benefits/ Rights

The social security system

On 1st of Jan 2020, a consolidated pension and social insurance law (Law no. 148 for year 2019) have been applied to workers in Egypt's private and public sectors, executive regulations will provide further details on implementation of the law.

Contributions are required at the following rates:

Employee contributions

- The employee contribution percentage is 11% of the total social insurance salary.
- The subscription wage in 2024 has been determined with a minimum of EGP 2,000 and maximum limit of EGP 12,600.



Employer contributions

The employer contribution percentage is 18.75% of the total social insurance salary.

In addition to the above, any managers/board of directors whose names are included in the commercial register of the company will be socially insured as employers and would be subject to social insurance at a flat rate of 21% of the total maximum wage (i.e. EGP 12,600 in 2024).

Contractual social security system

This system applies to all companies which by nature are most likely using seasonal and temporary workers who are usually not socially insured in carrying out certain assignments.

Those workers are to be registered under the competent contractual social insurance office, in which the company is responsible for paying the percentage applicable to the given assignment to the concerned social insurance office.

Annual increment

Employees are entitled to a periodical annual increment of not less than (3%) of the employee's social insurance salary, in which the calculated minimum mandatory increase should not be less than EGP 60.

Overtime pay

The minimum overtime premiums are 35 percent of normal pay for overtime worked during daylight, 70 percent for that worked at night, and 100 percent on weekends and 200 percent on official holidays.

Bonuses

There is no obligation to pay annual bonuses.

Minimum wage

As of 1 January 2024, the minimum wage is 3,500 EGP per month.

Recruitment resources

There are two key types of labour available for recruitment:

- Readily available number of new graduates who are looking for new jobs.
- A number of employees who wish to leave their original employers looking for better advantages and benefits.

Usually foreign companies use professional firms to undertake a market survey and guide the employer on how to ensure competitive advantage among competitors recruiting in the same field.

Other commonly used methods for recruitment are as follows:

- Web advertisement
- Selecting resumes through professional sites
- Using external recruitment agencies
- Internal referrals.

Unions

There are professional syndicate unions representing the labour rights in the private sector to bargain with the government in different areas, for example:

- Annual salary increase
- Special salary increase
- Minimum level of wages
- The labour disputes between employers and employees.

Termination of employment

During probation period

The probation period should not exceed three months and neither shall an employee appointed under probation more than once.

In case the employee proves unsuitable for the job during the allotted period. This allows the employer to cancel the contract during the period.

Dismissal under “Definite” contract

The employer has the right to terminate the employment contract upon its expiry without any indemnity to be paid to the employee. In the event of dismissing the employee within the period of the contract, the employee will be entitled to compensation equal to the equivalent salary of the remaining period of his/her signed contract.

To illustrate, if the contract is issued for one year and the employer decides to terminate the hiring after 8 months, he has to pay the remaining 4 months' salary in the contract.

Dismissal under “Indefinite” employment contract

Any of the two parties may terminate the contract at any time in case the contract is indefinite, taking into consideration, proper notice time, proper working conditions, stating reasons whether on the employer's or employee's behalf.

The employer may not dismiss the worker unless due to reasons as stated in the provisions of the Article No. 69 of the Labour Law.

An employee is entitled to 60 days' notice period for dismissal if his period of service does not exceed 10 years, and 90 days' notice period if that period exceeds 10 years. (Should the employer desire to dismiss the employee without giving him the relative notice period, the employee shall receive two or three month's salary payment instead of such notice).

Court decisions have tended to award payments of not less than the wage of two months' salary for each year of employment for unjustified dismissal.

Legal obligations

There are other legal obligations to consider, including the legal annual increase and profit share. Under the profit share, employees of a Joint Stock Company, Limited Liability Company, or Foreign Branch are entitled to a share in the distributable profits. The share is fixed at an amount not less than 10% of distributable profits and not more than the total annual salaries of the employees.

However, Limited Liability Companies with capital less than EGP 250,000 are not subject to this distribution of profit share.

Customary benefits

Customary benefits that can be paid to employees and varies from one company to another include the following:

- Bonus or performance pay
- Allowances
- Profit share
- Private medical insurance
- Tuition reimbursement
- Fellowship fund
- Stock Options.

Foreign employees

As a general rule, any foreign employee working in Egypt whether for a long or short term should obtain a work permit. An Egyptian legal entity must sponsor the foreign employee and respect the ratio prescribed by law which is 10 Egyptian employees for every foreign employee.

The foreigner's qualification and expertise must be adequate for the position and must have an experience certificate for the latest 3 (three) years in the same profession.

There should be a real need of the foreign expertise in the Egyptian market.

Two Egyptian assistants must be hired for each foreign employee.

Work residency for board members of a joint stock company and managers of a limited liability company

A. Work Residency for the Board Members of a Joint Stock Company (JSC):

Under the companies' law No. 159 of year 1981, the board of directors of a JSC should either have a percentage in the shares of the company or be a representative of one of the shareholders of the company. Moreover, the following capital should be paid in the bank account as follows:

- For the appointment of a foreign board member, the capital should be USD 35,000;
- For the appointment of 3 (three) foreign board members, the capital should be USD 50,000; and
- For the appointment of 6 (six) foreign board members, the capital should be USD 100,000.

B. Work Residency for the managers in the commercial register of a Limited Liability company (LLC):

Under the companies' law No. 159 of year 1981, a work residency of the managers of an LLC mentioned in its commercial register is issued when the following capital is deposited in a bank account in Egypt:

- For the appointment of a foreign manager, the capital should be USD 35,000;
- For the appointment of 3 (three) foreign managers, the capital should be USD 50,000; and
- For the appointment of 6 (six) foreign managers, the capital should be USD 100,000 or more.

The board members in a JSC and managers in an LLC are not included within the quota as the above-mentioned requirements must be adhered to issue their work residency.

Introduction of the Health Insurance System in Egypt

The new healthcare system is being implemented over six phases.

The health insurance system is financed through several sources and among them are the following:

- A contribution of 0.25% of total annual revenues to be paid by all entities and such contribution cannot be deducted as an expense for corporate income tax purposes.
- EGP 0.75 of the value of each pack of cigarettes sold (local/foreign) and such value shall be increased every three years until it reaches EGP 1.50.
- 10% of the value of each unit sold from tobacco cut-filler products (other than cigarettes).
- Fees, ranging between EGP 1,000 and EGP 15,000, paid by hospitals, medical clinics, treatment centers, pharmacies and pharmaceutical companies to subscribe to the new health insurance system.
- Individuals who wish to benefit from the health insurance system are required to pay a subscription fee, depending on the category they fall in, as detailed below:
- The employer will pay a subscription of 4% of the employee's total comprehensive salary (regardless of the maximum ceiling of the social insurance salary) and the employee will pay a 1% of that portion to reach a total of 5%.

- The employee will pay a subscription of 3% of the above-mentioned total comprehensive salary to insure his wife in case of her unemployment (or no stable fixed income).
- Business owners or self-employed professionals or Egyptians working abroad will pay a subscription of 5% of the portion of salary/ wage subject to social insurance or of their income reported in the income tax return, whichever is greater.
- The foreign expats residing in Egypt may also be allowed to subscribe in the new health insurance system, according to certain conditions and in case there is a reciprocal treatment with their home country.

The above mentioned subscription fees will only be paid when the new health insurance system is applied in the relevant governorate (i.e. for example, no fees should be paid by Cairo citizens/individuals until the last phase of implementation of the system). The party collecting such subscription fees will be required to submit them within 30 days from the date of collection.

Any non-compliance with the new health insurance system may result in financial or imprisonment penalties.





Key considerations

- As a general rule, any foreign employee working in Egypt whether for a long or short term should obtain a work permit and certain conditions must be met.
- Employees have the right to enjoy several benefits which include but are not limited to social security, minimum wage, unions etc.
- There are prerequisite legal obligations on the employer where foreign individuals are employed in Egypt.
- A new healthcare system has been introduced in Egypt over six phases that local entities should comply with .
- New amendments on the Egyptian Income Tax Law are introduced in law no.30 amending some provisions of the tax law. Those amendments affected the PE definition, CGT, Dividends as well as the PIT.
- The offshore WHT rates may be reduced under the relevant DTT between Egypt and the concerned country (provided that certain conditions are met (e.g. the beneficial ownership requirements to be met)).



Key Tax Indicators in Egypt

Tax indicators	Resident	Non-resident *
Fiscal year end	Calendar year	Calendar year
Companies		
Income tax	General tax rate is 22.5%. For companies engaged in exploration and production of oil and gas, the tax rate is 40.55%.	Not applicable, unless the foreign company has a permanent establishment in Egypt (refer to comments opposite).
Tax on capital gains	Generally, 10% if shares are listed on the Egyptian stock exchange. For the unlisted shares, the capital gains are subject to 22.5% tax.	Generally, non-resident are exempt from CGT on gains realised from the sale of listed shares on the Egyptian stock exchange. For the unlisted shares, the gains are taxed at 22.5%.
Value added tax	A standard rate of 14% is applied to all goods and services, except for machinery and equipment, VAT that is due on such machinery would be put on hold for one year from the importation date and such machinery and equipment may be exempt from VAT in case it has been proved that they are only used for the industrial production activities.	Every non resident and unregistered person who does not practice an activity through a PE in Egypt and sell goods or provide services to a person who is not registered inside the country, is obliged to apply for registration under the simplified vendor registration system.
Individuals		
Individual marginal tax rate (max)	Progressive rates of up to 27.5%.	Progressive rates of up to 27.5%.
Basis of taxation	Worldwide income	Egyptian-source income only
Withholding tax		
Dividends	10% from unlisted shares 5% from listed shares	10% from unlisted shares 5% from listed shares
Interest	Not Applicable	20%.
Royalties	Not Applicable	20%
Management service fees	3% local WHT (advance payments for CIT purposes)	20%
Customs	Goods : 0% to 60% depending on the specific nature of the goods. Tobacco products are subject to specific customs duties based on the quantity/ weight.	
Exchange controls	Theoretically, there are no foreign exchange controls in Egypt. In practice there may be constraints on cash and cheque deposits in other currency. Due to the current circumstances, this should be further confirmed with the relevant bank.	
Thin capitalisation	A 4:1 debt to equity ratio applies for the year 2023, for the years 2024-2027: The debt-to-equity ratio will be 3:1, Lastly, 2028 and 2:1 onwards. Any interest on debt exceeding this ratio will be disallowed in addition to other conditions that would be met.	
Transfer pricing	Related party transactions must be carried out at arm's length terms and conditions.	
Double tax treaties	Albania, Algeria, Austria, Bahrain, Belarus, Belgium, Bulgaria, Canada, China, Cyprus, Czech Republic, Denmark, Ethiopia, Finland, France, Georgia, Germany, Greece, Hungary, India, Indonesia, Iraq, Ireland, Italy, Japan, Jordan, Korea, Kuwait, Lebanon, Libya, Macedonia, Malaysia, Malta, Mauritius, Morocco, Netherlands, Norway, Oman, Pakistan, Palestinian Territories, Poland, Romania, Russia, Saudi Arabia, Serbia & Montenegro, Singapore, South Africa, Spain, Sudan, Sweden, Switzerland, Syria, Tunisia, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States, Uzbekistan and Yemen.	
Treaties awaiting conclusion or ratification	Armenia, Croatia, Mongolia, Slovakia, Slovenia, Thailand, Vietnam.	

* Not tax resident in Egypt and no permanent establishment in the Egypt.

About PwC Middle East

Established in the region more than 40 years, PwC has more than 7,500 people in 12 countries across the region: Bahrain, Egypt, Iraq, Jordan, Kuwait, Lebanon, Libya, Oman, the Palestinian territories, Qatar, Saudi Arabia and the United Arab Emirates.



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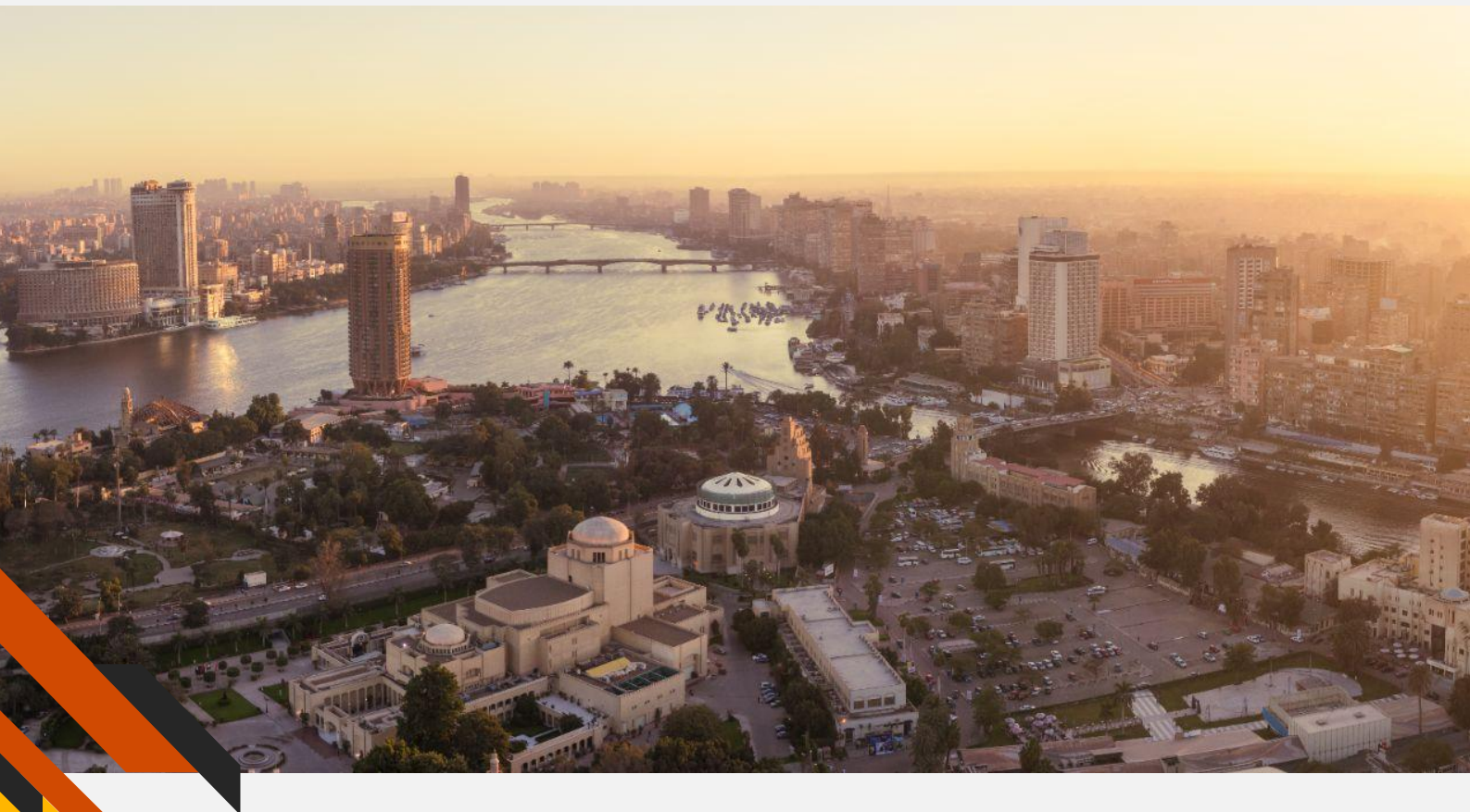
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Taking this #journeywithyou



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