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# ***Doing Business in Egypt***

## A tax and legal guide





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## Welcome to this guide

Egypt's location, tradition in trade, primary industry and manufacturing means it has one of the broadest economies in the region.

This broad base coupled with a large population, and recently announced measures to attract foreign investors has resulted in renewed interest in investment.

Since the political turmoil of 2011 Foreign Direct Investment ("FDI") has been recovering and the IMF is forecasting real GDP growth to be over 4% for the next five years.

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.

**Dean Kern**

Middle East – Tax and Legal Services Leader  
February 2016

## Country 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 82 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 and 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 state, transportation, and telecommunications.
- Egypt is a complex country in which to operate, ranking 151st in the 2016 World Bank / PwC Paying Taxes and 131st in the 2016 World Bank Doing Business studies. There are, however, signs of improvements being made.
- The currency of Egypt is the Egyptian pound (EGP).
- Due to recent US dollar shortages, the Central Bank of Egypt imposed a US\$ 10,000 ceiling on the maximum amount of deposits per day for individuals and companies; with a maximum of US \$50,000 per month, per entity.

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

## Incentives for foreign investors

During 2015 the Government introduced amendments to the Egyptian Investment Law ("Investment Law") to increase incentives for investors.

Features of the Investment Law include:

- A government authority to help streamline administrative processes-the General Authority for Investments and Free Zones ("GAFI")
- Reduced sales taxes and customs duties
- Reduced social charges
- Reduced cost or even free land from the Government

Access to these and other benefits are dependent on the sector, location and other parameters of the activity being undertaken by the foreign investor.

## Legal and regulatory framework

Egypt is a civil law country, with the legal system built on the combination of Islamic Shari'a and Napoleonic Code. In general on commercial matters the relevant Law and any Executive Regulations will be the main sources of law. Islamic Shari'a principles have historically been more relevant in personal matters.

The key legislation for the establishment of a corporate presence are the Investment Guarantees and Incentives law no. 8/1997 (according to the latest amendments made in 2015), the Companies Law no. 159/1981 and the Capital Market Law No. 95/1992 and their Executive Regulations.

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

The judicial system in Egypt is divided into 3 main categories:

1. Civil courts: (courts of first degree, courts of appeal and courts of cassation); having jurisdiction over the disputes arising between private persons/entities.
2. 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.
3. 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.

## Establishment of business

### Forms of business

In Egypt, there are four types of possible legal forms of business:

- Joint stock company
- Limited liability company
- Representative office
- Branch

For foreign investors the most common form is the LLC as it provides limited liability and any issued capital is accepted.

Other factors to consider when determining the most suitable form of business to use are the purpose of the entity, the number of partners and capital invested are essential.

### Joint Stock Company (JSC)

- There are generally no restrictions on the activities a JSC can undertake.
- A JSC may be 100% owned by foreign investors; however the company does not have the right to import. In order to import, the company should be wholly owned by Egyptian shareholders.
- There should be at least three shareholders and at least three members of the Board of Directors. The board members can be individuals or legal entities; if the board member is a legal entity it must have one or more natural persons as a representative.
- The minimum capital of JSC companies is 250,000 EGP or its equivalent in foreign currencies, where 10% of such capital is paid only from the agreed upon capital (Paid up Capital).
- JSCs can be registered in the Egyptian Stock Exchange
- 10% of the company's annual profits must be distributed among the employees.
- The establishment process typically takes between 3 - 4 weeks following the availability of certain documentation, after which the company can open its own bank account and obtain a bank certificate.

### Limited Liability Company (LLC)

- An LLC is permitted to engage in all business activities and may be owned by foreign investors.
- Similar to JSCs, LLCs are not permitted to import goods or equipment for the purpose of trade when not wholly owned by Egyptian shareholders.
- There should be at least two partners upon formation of an LLC (who may all be non-Egyptian) and at least one manager who must be responsible for the administration work.
- Partners can be individuals or legal entities.
- There must be at least one Egyptian manager. There are no nationality or residence restrictions on other managers.
- There are no minimum capital requirements; however, once the capital is agreed upon, it must be paid in full.
- LLCs cannot be registered on the Egyptian Stock Exchange.
- If the capital of the company exceeds EGP 250,000, 10%

of the company's annual net profits must be distributed among the employees.

- The establishment process typically takes between 3 - 4 weeks following the availability of certain documentation, after which the company can open its own bank account and obtain a bank certificate.

### Representative Office

- This type of business establishment is limited only to studying the market without practicing any type of commercial activity.
- There are no partners required, however, a manager should be appointed by the head office abroad to perform the administrative work based on the responsibilities determined by the head office. This manager can be Egyptian or from overseas.
- There are no minimum capital requirements; however, the parent company should transfer a minimum of USD 1,000 to be deposited in the representative office's account upon establishment.
- All of the representative office's expenses should be met by the overseas head office.
- The representative office is not liable to corporate tax since it is not performing any commercial activity. However, it will be required to pay the employment taxes of the manager and any staff. It is also liable for stamp duty and local withholding tax.
- The establishment formalities take approximately 6- 8 weeks once all required documentation is available.

### Branch

- A foreign company can also operate in Egypt by establishing a branch. The use of a branch is limited to the purpose of implementing a specific contract in Egypt.
- No partners are required. However, the head office appoints a manager who is entitled to perform the administrative work based on the responsibilities determined by the head office. The manager may be Egyptian or non-Egyptian.
- There are no capital requirements, but a deposit of EGP 5,000 is required.
- The branch is entitled to deduct a head office charge of an amount up to 10% of its taxable income, which is not subject to Egyptian withholding tax. Other than this, the branch is subject to normal Egyptian taxes.
- The establishment of a branch can be challenging and it may take 6-7 weeks to establish after all required documentation is available.

### Incorporation process

The steps to establish a new legal entity in Egypt are as follows:

- Prepare, review and authenticate the company's Article of Association from GAFI.
- Open a bank account for the company being established.
- Prepare and submit the security check application for the foreign shareholders / partners and the board members / managers.
- Notarize the Article of Association.
- Issuing the Commercial Register and tax card.

## Profit repatriation

There are no restrictions on repatriation of profits as long as supporting documentation can be provided.

## Changes to capital

The limit of a company's capital will be set by the GAFI at the same time as the application for incorporation.

It is permissible to increase the level of the company's capital, dependent upon the company's needs. It is, however, prudent to advise the GAFI of any significant increases.

## New Egyptian Investment Law and incentives for foreign investors

The Egyptian Investment Law provides a series of incentives for investors. The latest amendment to the law was on 12 March 2015, Law No. 117/2015, which has now been accompanied on 6 July 2015 by the Executive Regulations ("Regulations") introducing new incentives.

Amendments to the Law include a reduction of sales tax, a one-stop-shop administration system, land disposition and dispute settlements.

## Revisions to existing articles

### Reduced customs rate

The unified customs rate decreases from 5% to 2% on imported tools, equipment, and machinery necessary for the establishment of the business.

### Reduced Sales tax rate

There is a decrease in the sales tax rate from 10% to 5% on imported tools, equipment, and machinery necessary for the establishment of the business.

### Prohibit establishment of private Free Zones

There are no private free zone licenses being granted by the GAFI.

### Additional non-tax incentives for certain business

Additional incentives have been provided for businesses that meet specific criteria. These incentives include:

- Permission to open customs outlets especially for the imports and exports of the project (in agreement with the Finance Minister)
- Reduced energy prices, and related payment facilities.
- Returning full or partial utilities allocation expense to the investor after the operation of the project.
- The government may bear part of the technical training expenses
- The government possibly bearing full or partial share of the social security charges for a specified period of time.
- Free land granted to investors

The mechanism requires the competent Minister to advise the Prime Minister that a project meets the criteria. Projects satisfying one or more of the below eight conditions meet the criteria:

#### 1. Intensive labor requirement:

- The number of Egyptian employees must not be less than 250 as stated in the social insurance form.
- The cost of creating a new job opportunity in the project must not exceed 250,000 EGP or its equivalent in any foreign currency.
- The direct cost of the salaries must be more than 35% of the total cost of operating the project.

#### 2. Reinforcement of local components used in product production:

- The percentage of local components used in its 'products' or in the tools and equipment necessary for production should not be less than 50%.

#### 3. Improves transport and logistics' capacities, this includes:

- Cooling transport for goods, refrigerators and the stations for preserving agricultural crops, industrial products and food products and its cooling, freezing, packing and wrapping.
- Stations of operating and trading containers.
- Silos of reserving and storing the yields.
- Loading and unloading services related to the above activities.

#### 4. Projects that develop internal trade, which include:

- Trading centers, wholesale trade, retail trade and supply chain activities, provided that these activities are practiced in the new urban communities, remote areas, Upper Egypt and the border areas.

#### 5. Investment in electricity production, transport, and distribution (this includes new and renewable energy).

#### 6. Agricultural projects (reclamation and cultivation):

- The area of the reclaimed/cultivated land should not be less than 1000 Acres.
- New irrigation methods should be used.

#### 7. Road, maritime, and railway transport:

#### 8. Investment in specific remote areas that have been targeted for development by the government, which are:

- Upper Egypt
- Sinai
- Matrouh
- Nubia areas

To benefit from these non-tax incentives the companies must have started their operations/production.

GAFI should issue the certificate for benefiting from the provided incentives within 30 days from the date the investors have submitted their request.

### Discharge of liabilities upon liquidation

If an investor wishes to liquidate a business, the concerned authorities are required to advise within 120 business days from the date the request is submitted, of any liabilities due. This includes liabilities due to the Tax Authority, Social Insurance Authority, or General Authority for Investment. If no such advice is received then the company is discharged of any liabilities.

### Land acquired as part of a business activity under the Law

The Investment Law allows for the acquisition of an interest in land where required for the establishment of a project / business activity.

Such acquisitions can be through a sale, lease, lease that ends in ownership, or license to use. The investment law also gives investors an incentive of having the government authority as a shareholder as it will participate with the land as an in-kind share in the project.

### Potential deferral of payment for land

In the case of an investor acquiring their interest in land through a sale (obtaining freehold title), GAFI can at the investor's request defer the timing for payment of some or all of the consideration for the sale, or provide any kind of payment facilities till after the actual operation of the project.

### Free land

For a period of 5 years starting April 2015, GAFI can dispose of lands and real estate owned by the government free of charge to investors satisfying certain technical and financial capabilities to be determined by the Cabinet. The government land at issue will be in areas determined by a presidential decree after the approval of the Cabinet. Given the potential for high levels of interest in this incentive, a lottery mechanism will be used.

In such cases, the investor shall pay a cash guarantee of 1% from the project's investment costs. This guarantee should be recovered by the investor after 5 years from the start of operation/ production.

### Low cost land

In addition to the potential for 'free land', GAFI can provide land at reduced prices, at a discounted rate with a maximum of 50% of the estimated value of such land or real estates.

In contemplating the potential for high levels of interest in this incentive, a lottery mechanism will be followed.

### GAFI has the right to terminate the land acquired if progress is not made with the project.

To avoid abuse of the incentives mentioned above, the law allows for the sale/lease/license of land to be terminated by GAFI if any of the following occur:

- If the investor refrains from formally receiving the land/ real estate for a period of 6 months from the date when they are notified of the ability to take the freehold or leasehold interest.
- If the investor does not start implementing the project within 6 months from the date of receiving the land/ real estate free from all obstacles, without a reasonable cause.
- If the investor changes the original purpose of using the land/real estate.
- Not implementing the timetable approved by GAFI to execute the project without a reasonable cause; or.
- Committing a material breach to the conditions of the contract of sale, lease or the license to use the land / real estate.

### A new center for the development of foreign investment

A new center within GAFI will be established tasked with facilitating investment into Egypt. Activities of this center include:

- Preparing strategies to attract investors
- Preparing and implementing the government plan for investment promotion
- Coordinate with the concerned authorities
- Communicating with investors, international organizations, the press and the business community
- Handling complaints by investors

## Licensing

### Temporary License

In cases where the number of temporary license applications submitted from the companies to GAFI to obtain a temporary approval exceeds the number of the licenses available at the concerned authorities, the trade-off between the applicants shall be according to the "Points System" without being subject to the provisions of the Public Tender Law no.(89) of 1998. Such points will be according to the criteria issued from the chairman of GAFI, which includes:

- The investment costs of the project
- Previous experience
- The technology used



## Timing of final Licensing

The Executive Regulation gives the concerned authorities a maximum of 45 days from the date of receiving all the required attested documents from the investor to submit final licenses to GAFI.

Also, a condition was added that states that the concerned authorities cannot refuse the application unless one or more of the conditions stated in the guide book of each activity or the technical conditions determined by the competent authorities is not satisfied.

If the final license is not approved by GAFI within 15 days of receiving all the required licenses and approvals from the concerned authorities, then the Chairman of GAFI must submit the case within one week to a special committee. This should include the reasons for not issuing the final license, where this committee must issue its decision in the case within no later than 15 days.

## Closing Businesses

**For JSCs and LLCs a liquidator needs to be assigned to finalize the liquidation process.**

For branch and representative office closures, the process can be summarized as follows:

- Notify the competent tax authority in a formal letter.
  - Prepare a 'declaration letter' from the head office company indicating its approval of the closure of the entities, signed and stamped by the Egyptian consulate abroad.
  - Prepare a dissolution financial statement for each branch.
  - Finalize and settle the group entities' tax audits / inspections to the date of dissolution.
  - Close the social insurance obligations for the employer and employees at the Social Security Insurance Authority Office.
  - Obtain a declaration letter from the branches' managers and the representative office's manager indicating that they have no financial or legal obligations towards any governmental bodies or authorities.
  - Submit all the necessary documents and requirements to the GAFI to obtain an approval for the closure process for each entity.
  - Cancel the work permits for related managers.
  - Cancel the branches from the commercial register
- As for the representative office, GAFI should cancel the registration from the relevant authority.

### 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 can be greater than in many countries.

The new Investment Law and the operation of the GAFI is intended to streamline processes and provide incentives, however, these are in the early stages of operation.





# Taxation

## Corporate income tax

In Egypt, companies are liable for corporate tax at a flat rate of 22.5%, although there are different rates for the Suez Canal Authority, the Egyptian Petroleum Authority, the Central Bank of Egypt, and oil and gas exploratory and production companies.

Corporate 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 (“PE”) in Egypt.

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

- Profits from a commercial or industrial activity
- Income from the use and 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 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.

## Deductions allowed while calculating taxable income

In calculating the taxable profits of the commercial or industrial activity, deductions are allowed for any costs and expenses that are necessarily incurred in realising them. In order for such deductions to be certified by the tax authority, certain conditions must be met.

For instance, the deductibility of interest on business loans, or the portion of a loan used for business purposes should be determined by:

- Deducting the interest paid from the interest received;
- Applying the thin capitalisation rules.
- Considering the rate of interest – whether it is in excess of the twofold of the credit and discount rates announced by the Central Bank of Egypt (i.e. approximately 9% for the financial year of 2015).

- In addition to this, the company should be considering the arm’s length principle for related party financing.

Deductible expenses can include:

- Costs of importation;
- Costs of setting up in Egypt;
- Administrative and other related expenses, and
- Depreciation expenses.

Non-deductible expenses include, among others:

- Reserves and appropriations;
- Financial fines and criminal penalties; and
- Income tax payable.

## Permanent Establishment

The concept of PE was introduced to the Egyptian tax law in 2005.

In applying the provisions of the domestic income tax law, a permanent establishment means “a fixed place of business through which the business of an enterprise is wholly or partly carried on.” A PE can be established with these activities:

- Headquarter operations
- Branches
- Buildings used for sales
- Offices
- Factories
- Workshops
- Places of extraction of natural resources
- Farms
- Building sites, construction or assembly points, installations, or supervisory activities of the same
- An agent who has the power to sign and ratify contracts

A foreign company that is deemed to have a PE in Egypt is required by the Egyptian Companies’ Law to establish a local entity and apply all Egyptian laws and regulations.

## Withholding tax

### Payments made to Local Entities

Any Egyptian entity has a liability for withholding tax (“WHT”) against any payments in excess of EGP 300 made to any local supplier of goods or services at the time of payment.

The rates of WHT applicable to local payments for local services and supplies are as follows:

- Contracting and supplying 0.5%
- All types of services 2.0%
- Commissions 5.0%
- Professional Fees 5.0%

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

## *Payments made to Non-Residents*

Any Egyptian entity which makes payments of interest, royalties or for services to non-residents (whether individual or corporate) must apply 20% WHT at the time of payment.

Based upon a relevant double tax treaty signed between Egypt and the country of the payment recipient, the above rate may be reduced or eliminated.

## **Losses**

Prior year losses can be used to reduce the taxable profit of a company in a subsequent year. If there is a remaining portion of the loss, it can be transferred annually to the following years.

Losses can be carried forward for up to 5 years.

In the case of change of ownership in a company which has carried forward losses from prior years, the company is not able to bring forward losses if the following three conditions are all met:

- If 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 any of the above conditions are not met, the company has the right to carry forward its losses.

## **Transfer Pricing**

Transfer Pricing rules were issued in Egypt as part of a new tax law enacted in 2005. The law contains an anti-avoidance article as well as an article in the executive regulations that provides guidance on the preferred methods to use to establish the arms length price.

Since the issuance of the 2005 law, corporate tax returns have had a disclosure requirement for related party transactions and transfer pricing.

In 2010, the ETA issued the first part of the Transfer Pricing Guidelines, which are similar to the OECD Transfer Pricing Guidelines.

No specific penalties exist for transfer pricing, however general penalty provisions applicable to income tax will be applied to transfer pricing.

Penalties may be as high as 40% of the taxes assessed if it is determined that they have not been correctly paid.

Whilst there is no formal transfer pricing law the ETA has established a specialized transfer pricing unit which has become more active in requesting taxpayers submit their transfer pricing documentation reports for periods ranging from 2010 through 2014.

## **Capital Gains Tax on Shares**

In 2014 a limited capital gains tax was introduced for the first time and was subsequently amended in August 2015.

- Sale of listed shares: Capital gains realized from the sale of listed Egyptian shares by both resident and non-resident shareholders are subject to 10% withholding tax. However; the application of this tax has been suspended for two years as of 17 May 2015.
- Sale of unlisted shares: Capital gains realized from the sale of unlisted Egyptian shares by both resident and non-resident shareholders are subject to the regular tax rate for corporate shareholders (22.5%) and individual shareholders (progressive rate of up to 22.5%). This came into effect on 21 August 2015.

## **Dividend Income**

In 2014, a tax on dividend income was introduced and also subsequently amended in August 2015.

Dividends distributed by resident companies to resident or non-resident individuals or companies are subject to a 10% withholding tax.

The withholding tax rate is reduced to 5% for qualifying dividends, such as dividends earned from participations representing more than 25% of the shares or voting rights of the subsidiary company, subject to a two year minimum holding period.

Dividend income earned by resident companies and resident individuals from Egyptian companies are excluded from taxable income for income tax purposes, and along with any associated costs, are non-deductible.

## **General Anti Avoidance Rules (“GAAR”)**

In 2014 GAAR was introduced. It applies to arrangements entered into on or after 1st of July 2014. The primary objective of the GAAR is to deter tax payers from entering into arrangements for the purpose of obtaining an “abusive” tax advantage.

The GAAR gives the tax authority the right to challenge any cases where it suspects that the main objective of the transaction is to defer, reduce or avoid paying tax and would accordingly have the right to reassess the taxes due that were relevant to the transaction.

## **Personal income tax**

In general, this tax is withheld at source from payments to Egyptians and foreign nationals working in Egypt. 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 centre of commercial, industrial or professional activities is in Egypt.

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

## ***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

## ***Rates of Tax***

Natural persons are subject to the following rates of income tax dependent on level of income:

- EGP 0 -6,500 0%
- EGP 6,500 -30,000 10%
- EGP 30,000 -45,000 15%
- EGP 45,000 -200,000 20%
- More than EGP 200,000 22.5%

Non-residents are taxed using the same tax brackets applicable to residents. Employees (both resident and non-resident) are entitled to an annual exemption of EGP 7,000.

## ***Administration***

Egyptian resident employers are required to withhold the tax payable from the employees' salaries according to the aforementioned 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 on the first of January of each year, or at the end of his stay in Egypt, whichever is sooner.

## ***Sales tax***

Currently Egypt does not have a 'fully fledged' Value Added Tax ("VAT") system, but it does have a sales tax (called the General Sales Tax, ("GST")) with some features similar to a VAT.

One distinction is that the current sales tax is not as broad as a typical VAT system in terms of the goods and services being subject to tax.

The liability of a person under the GST Law is defined as any person, individual or corporation, who is a local manufacturer, trader or supplier of a taxable service, and whose revenue has reached the registration threshold.

The general rate of GST levied on commodities and services is 10%, except for some specific commodities and services which are detailed in the GST Law.

In March 2015, the GST rate imposed on equipment and machinery used in production was reduced to 5% (instead of 10% previously).

GST becomes due on the issuance of an invoice, upon the delivery of the goods, or the rendering of a service.

Registrants are required to prepare a monthly GST return within 60 days of the end of the month, even if no taxable sales have been made in the month to which the return refers.

GST paid on services is generally not refundable, and cannot be offset against a liability that arises under another tax law.

## ***VAT***

Conversion of the current GST Law into a fully-fledged VAT system is presently under deliberation. At the time of writing, whether and when such a new VAT system will come into effect is unclear. It is expected that any new VAT systems will apply to a much wider ranges of goods and services than the current GST.

## ***Customs Duty***

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

Customs duty rates on imported goods range from 5% to 40%, with the exception of vehicles, nonessential and luxury consumer goods, and alcoholic beverages, which may be as high as 135%.

Where entities import machines and equipment as capital assets to establish the company's project, the machines and equipment may be subject to a reduced customs duty of 2%.

Machines, equipment and similar capital assets (with the exception of private motor cars) imported on a temporary basis are subject to fees at 20% of the original customs duty for each year or fraction of a year during which they remain in Egypt until they are exported.

There are rules allowing reduced customs duties on component parts which are assembled in Egypt into a complete product.

Egypt has signed several bilateral and multilateral agreements to promote and develop competitiveness including the levels of customs duties.



## Other taxes

### Stamp Tax

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

Any person who engages in the aforementioned transactions will be liable to stamp tax. There are two distinct types of duty:

- Nominal Stamp Tax is mainly imposed on legal documents, typically contracts, at the rate of EGP 0.9 per paper (approximately USD 0.11)
- Proportional Stamp Tax, which is imposed at prescribed rates on the values of certain financial transactions

Additionally, there are some other types of stamp tax, which are levied by the Laws of the Engineering Syndicate and the Technical Syndicate.

The rates of stamp duty vary according to the nature of the transaction being executed, and whether it is liable to Nominal or Proportional Stamp Tax.

In respect to credit facilities, an annual proportional tax at the rate of 0.4% of the beginning balance of each quarter applies to credit facilities, loans and advances provided by Egyptian banks or branches of foreign banks during the financial year in addition to the amounts utilized during the quarter. Loans from other establishments are not subject to this tax.

The bank and the customer split the tax on a 50-50 basis.

Payments made by a governmental entity are subject to 2.4% stamp tax and is payable by the recipient.

### 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”, will be 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.

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 is collected in two equal instalments at the end of June and December of the same year.

The tax due must be paid at the relevant real estate tax directorates in each governorate and their respective tax inspectorate affiliate offices.

A taxpayer will have the right to file a challenge against the assessment of the rental value of real estate, or part thereof, within sixty days following the date of the notification for the assessment of the rental value. The committee will issue its decision on the challenge within thirty days from the date of filing and that decision will be final.

### Key considerations



The taxation regime in Egypt is comprehensive in terms of the types of taxes and areas covered (e.g. transfer pricing).

However, in a number of areas the level of guidance from the tax authority or from courts is limited, which can create a level of uncertainty.

Egypt, over the last two years, has introduced a number of taxation reforms, including capital gains tax on the sale of shares and taxation of dividend income, in addition to GAAR, which require careful consideration.





## Audit and accountancy

During incorporation, a company should state the name of the auditor performing 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.

The financial accounts and the tax return should be prepared on an annual basis for each financial year, which is usually a 12 months period. An exception to the rule is if the company is incorporated after 7 days from its start of its financial year, then the company may have an extended financial year (23 months).

Filing accounts should be prepared in accordance with the Egyptian Accounting Standards and presented to the following authorities (there are no filing fees):

- Egyptian Stock Market (obligatory for Banks).
- GAFI
- Tax authority

In addition, it is obligatory for certain types of businesses, such as banks, to publish their annual financial statements in two national newspapers. The statements should be prepared in accordance with the Egyptian Accounting Principles; International Financial Accounting & Reporting Standards may be prepared for management purposes only.

It is legally required to maintain local books and records in hand-written Arabic. Electronic recording of the books and registers is also permitted.

The above accounting, audit and filing requirements apply where:

- The capital of the business exceeds EGP 50,000, or
- The annual turnover is greater than EGP 250,000, or
- The annual net profit, according to the last tax assessment, exceeds EGP 20,000.

Supporting documentation must also be kept for the entries in the books, and receipts are required to be issued for any payments received.





## **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)
- Position occupied by the employee.
- 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.

#### *Accidental Leave*

Accidental leave is the leave taken by an employee, as a result of unexpected circumstances, in which he has no choice except to be absent from work. He should inform the employer with the reasons of absence.

The Labour Law states that absence from work for accidental reasons should not exceed six days per year with a maximum of two days each time, and this leave will be counted from the annual leave of the employee.

#### *Sick Leave*

The Labour law provides that an employee whose sickness has been established by a responsible medical professional is entitled to a sick leave of maximum 180 days per year (6 months per year), in which the employee is entitled to receive 75% of his/her monthly social insurance salary during the first three months of the sick leave and 85% for the following three months of the employee social insurance monthly salary.

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 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 and Public Health Insurance*

Social security is a public program designed to protect individuals and their families and includes provisions for retirement age, disability and death, employment injury, medical insurance, end of service bonus, and unemployment.

Contributions are required at the following rates:

- Basic – 26% and 14% for employers and employees respectively up to a maximum of EGP 1,120.
- Variable - 24% and 11% for employers and employees respectively up to a maximum of EGP 1,830.

All private sector companies in Egypt are required to provide free health care for their Egyptian employees either through the Medical Insurance Plan of the Ministry of Social Insurance (Government medical insurance ) or privately. They are also required to contribute to the Pension Insurance Fund of the Ministry of Social Affairs and Insurance.

When the employer registers the employee under the government social security system, a monthly pension contribution is paid every month to the competent social insurance office, whereby the employee will be entitled to certain pension upon retirement or disability. No other fund contribution is mandatory.

### *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.

The social insurance percentage is determined to be (18%) taken from the salaries of the workers performing the assignment.

## *Annual Increment*

Employees are entitled to a periodical annual increment of not less than (7%) of the basic social insurance salary. The minimum mandatory annual increase is currently EGP 78.40.

## *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*

The minimum wage is around 150 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:

- Newspaper advertisement;
- 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 be 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 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 terminations*

Grounds for legal termination without notice include the expiry of a definite employment contract, retirement, resignation, death or the incapacity of the employee to perform the relevant job based on a report from the concerned governmental committee & authorities. In all circumstances, any case of employment terminations the company should be in compliance with the Egyptian Labour Law & its penal regulations.

## 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

### *Key considerations*



The definite employment contract is terminated at the end of its duration, and if the work relationship between the employee and employer continues after that then the contract is considered to be renewed for an indefinite period.

The employee's resignation letter is not considered authenticated, unless it is written, approved, and dated from the employee and the resigned employee has the right to withdraw his written resignation letter within a week from the date of the notification of the employer to the employee with accepting the resignation.

It is prohibited under any circumstances to terminate the employment of a working female during her maternity leave.

When the employment contract is terminated, the employer is obliged to provide the employee with an experience certificate and the employee's personnel file.

# Egypt key tax indicators

<b>Tax indicators</b>	<b>Resident</b>	<b>Non-resident *</b>
Fiscal year end	Calendar year	Calendar year
<b>Companies</b>		
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; this tax is suspended for 2 years from 17 May 2015. Otherwise if shares are not listed, standard rates apply.	Generally, 10% if shares are listed on the Egyptian stock exchange; this tax is suspended for 2 years from 17 May 2015. Otherwise if shares are not listed, standard rates apply.
General sales tax	Rates vary between 10% to 25%.	Not Applicable
Value added tax	A new VAT law is expected to be introduced by Q4 2015 and will replace the sales tax.	Not Applicable
<b>Individuals</b>		
Individual marginal tax rate (max)	Progressive rates of up to 22.5%.	Progressive rates of up to 22.5%.
Basis of taxation	Worldwide income	Egyptian-source income only
<b>Withholding tax</b>		
Dividends	10% (reduced to 5% if certain conditions are met)	10% (reduced to 5% if certain conditions are met)
Interest	Not Applicable	20%. Interest on loans with a three-year term, or more entered into by private sector companies are exempt from WHT.
Royalties	Not Applicable	20%
Management service fees	Not Applicable	20%
<b>Customs</b>	Goods : 0% to 40% depending on the specific nature of the goods, passenger cars : 40% or 135%, alcohol 600% to 3,000%. Tobacco products are subject to specific customs duties based on the quantity/ weight.	
<b>Exchange controls</b>	Theoretically, there are no foreign exchange controls in Egypt. In practice there may be constraints on cash and cheque deposits in other currency.	
<b>Thin capitalisation</b>	A 4:1 debt to equity ratio applies. Any interest on debt exceeding this ratio will be disallowed.	
<b>Transfer pricing</b>	Related party transactions must be carried out at arm's length terms and conditions.	
<b>Double tax treaties</b>	Albania, Algeria, Austria, Bahrain, Belarus, Belgium, Bulgaria, Canada, China, Cyprus, Czech Republic, Denmark, Finland, France, Georgia, Germany, Greece, Holland, 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, Serbia & Montenegro, Singapore, South Africa, Spain, Sudan, Sweden, Switzerland, Syria, Tunisia, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States and Yemen	
<b>Treaties awaiting conclusion or ratification</b>	Armenia, Croatia, Ethiopia, Mongolia, Slovakia, Slovenia, Thailand, Vietnam	

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



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We provide a comprehensive set of services covering:

- Assurance and Audit
- Consulting
- Deals
- Family business
- Tax and legal

## ***Tax and Legal***

The Middle East Tax & Legal practice offers expertise in jurisdictions across the region with over 500 professional staff. We can provide assistance with the following areas:

- Indirect taxation (VAT and customs) and fiscal reform
- International taxation
- Global mobility and Human Resource Services
- Legal
- Mergers and acquisitions / private equity
- Services for U.S. citizens and Green Card holders
- Tax and Zakat advisory
- Tax compliance, management and accounting services
- Transfer pricing



# Contacts

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**Abdallah Eladly, Cairo**

**Egypt Tax Leader, Egypt**

+20 2 2759 7887

[abdallah.eladly@eg.pwc.com](mailto:abdallah.eladly@eg.pwc.com)

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**AbdelKhalek Ahmed, Cairo**

**Financial Accounting and Administrative Services Leader**

+20 2 2759 7889

[abdelkhalek.ahmed@eg.pwc.com](mailto:abdelkhalek.ahmed@eg.pwc.com)

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---

**Dean Kern, Dubai**

**Middle East Tax and Legal Services Leader**

+971 4 304 3575

[dean.kern@ae.pwc.com](mailto:dean.kern@ae.pwc.com)

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---

**Amr ElMonayer, Cairo**

**International Tax, Egypt**

+20 2 2759 7879

[amr.elmonayer@eg.pwc.com](mailto:amr.elmonayer@eg.pwc.com)

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**Karim Emam, Cairo**

**Tax Partner**

+20 2 2759 7881

[karim.emam@eg.pwc.com](mailto:karim.emam@eg.pwc.com)

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**Jochem Rossel, Dubai**

**Middle East International Tax Services Leader**

+971 4 304 3445

[jochem.rossel@ae.pwc.com](mailto:jochem.rossel@ae.pwc.com)

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