



# Doing business in Egypt

**A tax and legal guide**



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# Welcome to this guide

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 5% per annum. This is creating an environment which is positive for both innovation and foreign direct investment ('FDI').

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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## 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 99 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 is a complex country in which to operate, ranking 159 overall in the 2019 World Bank / PwC Paying Taxes report. There are, however, signs of improvements being made.

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

A new Investment Law was issued on 31 May 2017, abolishing the current law and introducing new incentives for investors.

The Executive Regulations followed on 28 October 2017.

The new Law is now in force and include notable amendments such as returning back the private free zone which was previously abolished, moreover it provides several incentives such as tax exemptions, unified customs rate and free lands.

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

## 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. 72/2017 (according to the 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.
- Sole shareholder company.

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)

Generally there are no restrictions on the activities a JSC can undertake.

- A JSC may be 100% owned by foreign investors; however in order for a JSC to import goods for the purpose of trading in Egypt, it must be 51% at least owned by Egyptians and having one Egyptian manager at least responsible for importation. There should be at least three shareholders and three members of the Board of Directors. The board members can be individuals or corporates, however corporate members must have one or more individual representative.
- The minimum capital of JSC is 250,000 EGP or its equivalent in foreign currencies, where 10% of such capital ("Issued Capital") is paid upon incorporation, increased to 25% within 3 months from the date of registering the company in the commercial register ("Paid up Capital"), and the remaining amount must be paid within no later than 5 years from the date of registering the company in the commercial register. Noting that certain activities may require a higher minimum capital, for example the minimum required capital for importing JSCs is 5 Million EGP.
- 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 approximately takes between 3 - 4 weeks from the date of submitting all the required documents to the General Authority for Investment & Free Zones ("GAFI").

### Limited liability company (LLC)

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

- A LLC may be 100% owned by foreign investors; however in order for a LLC to import goods for the purpose of trading in Egypt, it must be 51% at least owned by Egyptians, and having one Egyptian manager at least responsible for importation.
- There should be at least two partners in an LLC.
- There are no nationality or residence restrictions regarding other managers.

- There should be at least two partners in an LLC.
- There are no nationality or residence restrictions regarding other managers.
- Partners can be individuals or legal entities.
- There are no minimum capital requirements; however, certain activities may require a certain minimum capital, for example the minimum required capital for importing LLCs is 2 Million EGP.
- LLCs cannot be registered in the Egyptian Stock Exchange.
- If the capital of the company reach to EGP 250,000, 10% of the company's annual net profits must be distributed on the employees.

The establishment process approximately takes between 2 - 3 weeks from the date of submitting all the required documents to the General Authority for Investment & Free Zones ("GAFI").

### Representative office

The activity of a representative office is limited to conducting market study 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 foreigner.

### New compliance requirements imposed on representative offices

- The rep office in Egypt should submit at the beginning of each year a statement including its employees' name, their jobs, nationalities, their salaries, the total of their salaries, the percentage of the Egyptian employees' salaries, the rep office's marketing study that was conducted during the year as well as the prove of sending such marketing researches to the Parent Company, the decisions made by the Parent Company for the work exerted during the year.
- The rep offices should submit to GAFI the Parent Company's decision to establish a legal entity in Egypt (a subsidiary such as a limited liability / joint stock company) or a branch within three years from the date of the registration of the rep office in Egypt.
- The rep offices in Egypt shall submit a time frame for the completed and remaining researches, and the conclusion of those researches.
- Furthermore, the rep office shall be accorded by GAFI a registration certificate from the date of registration that shall not exceed a year and such certificate is renewed yearly for three years according to its compliance with the Law 159 of year 1981.

## Branch

A foreign company can also operate in Egypt by establishing a foreign branch. The purpose of a branch is limited to 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 foreigner.
- There are no capital requirements, only a deposit of USD amount equivalent to of EGP 5,000 in the representative office's local bank account 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 approximately 6-7 weeks from the date of submitting all the required documents to GAFI.

## Sole shareholder company

The recent amendments of the Companies Law No. 159 for year 1981 introduces a new form of legal entity which is sole shareholder company. This Company takes the same form and structure of a Limited Liability Company which can be owned either by a natural or juristic person. The company's name shall be either derived from its activity, or the name of a shareholder. Any changes in the company's information such as the location, activity, or capital shall be published in the commercial register.

## 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 company's capital is approved by GAFI at the incorporation date. And it's permissible to increase it afterwards depending on the company's needs and after obtaining GAFI's prior approval.

## Egyptian Investment Law No. 72 for the year 2017

The Egyptian Investment Law No.72 for the year 2017 was announced on the 31st of May 2017, and its related Executive Regulations was issued in October 2017.

The Law is now in force and include notable amendments such as returning back the private free zone which was previously abolished, moreover it provides several incentives such as tax exemptions, unified customs rate and free lands.

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

### In detail

The Egyptian Investment Law was first issued in 1974 (Law No. 43/1974) aiming to attract foreign investors to the Egyptian market. It provided tax and customs exemptions for companies established under its umbrella and offered land, necessary for projects, at attractive prices and simplified incorporation procedures.

### Nature of the new Law:

A new Investment Law was issued in May 2017 "Law no. 72/2017" abolishing and replacing the existing Law no. 8/1997, its Executive Regulations was issued in October 2017. The Law also sets out certain activities under which a company can be established and benefit from the law incentives, the list is not exclusive and can include additional activities by virtue of a ministerial decree.

The executive regulations has stipulated upon the investment activities as follows:

- Industrial activities: (including product lines, architecture designs, utilities, cinema production, and industrial development except for tobacco & wine industry);
- Agriculture and animal, poultry and fish production;
- Trade sector (projects targeting to develop the internal investment);
- Education sector;
- Health sector;
- Transportation sector;
- Tourism;
- Housing, construction & building;
- Sports;
- Electricity & Power;
- Petroleum;
- Water Sector;
- Communication & information technology.



## Customs and VAT for equipment

### Reduced customs rate

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

### Value Added Tax (VAT)

There is a decrease in the VAT rate from 14% to 5% on imported equipment and machinery necessary, for the establishment of the business and to be used in production (whether goods or services).

### Investment guarantees:

The law has provided several guarantees such as:

- All the resolutions related to the investment project must be justified and notified to the investors.
- The Investment funds cannot be seized except by virtue of a final judgment.
- The permits issued for the project and lands granted cannot be abolished except after notifying the investor of the violation and granting him a grace period of 60 days to rectify the causes of the breach.
- The investor has the right to establish, own, expand and dispose his investment project, fund project from abroad and transfer its profits.
- In case of liquidation, the competent authorities must notify the liquidator and GAFI of any due liabilities within no later than 120 days from the date the liquidator submits an application in this regard, otherwise the liquidated company shall be released.
- The companies can import its necessities from raw materials and equipment without a need to be registered in the importers register, moreover it can export its products without a need to be registered in the exporters register.
- The investment project can increase the foreign work force permitted quota to 20% of the total work force in case there are no qualified nationals to fit in the position, moreover, some strategic projects may be exempted from such quota.

### Investment incentives

The Law has provided several incentives some of which are general for all projects established under this Law, others are special incentives only applicable to projects of certain activities:

#### A. General incentives:

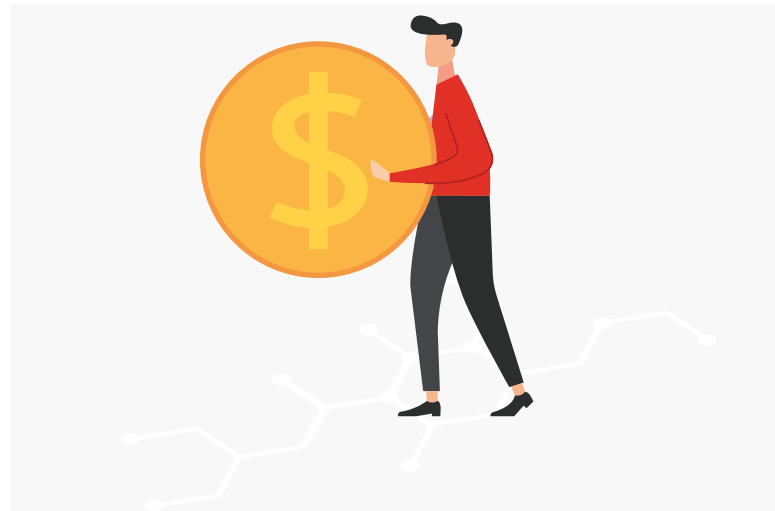
- Companies shareholders' & founders & establishment owners are granted investors' residency for a period of one year at least (to be renewed for five years) and not exceeding the project duration.
- The Articles of association of the companies established under this law are exempted from the stamp tax and authentication and publishing fees for 5 years from the date of registration in the commercial register, moreover the land contracts of the project are exempted from the registration fees.
- A fixed custom rate (2%) will be collected on any imported equipment necessary for establishing the project.
- The foreign employees in the investment project can reach up to 20% of the total workforce.

#### B. Special incentives:

- 30% or 50% discount (according to the geographical area of the project) on the investment costs, noting that the discount will be for a period not exceeding 7 years from the date of initiating the activity and discount value shall not exceed 80% of the paid up capital of the project at the date of initiating the activity.

#### C. Additional incentives:

- Projects that initiated its activity, based on research undertaken in Egypt, having Egypt one of its principle places of business, the main source of its funds is the foreign currency transferred from abroad, exporting 50% at least of its production, it activity transfers an advanced technology to Egypt and the Additional incentives maybe granted by virtue of board of ministers resolution:
  - Permit opening special custom windows for the importations and exportations of the project.
  - The government bears all or part of the utilities cost for the project land, after operating the project.
  - The government bears some of the employees' technical training costs.
  - Returning half of the land price with regards to industrial projects that has started its activity within 2 years from the date of receiving the land.
  - Providing free lands for some strategic projects.



## Investment systems

The Law has provided several investment systems according to area and activity of the project as follows:

### A. Internal investment:

- The strategic projects that contribute to the community development with regards 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 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 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.

### C. Technological zones:

- The prime minister may, upon a suggestion from the competent minister, resolve setting up technological zones in the field of information and communication technology industry.
- The licensed project's tools, equipment & machines necessary for practicing the activity will be exempted from taxes & customs and shall enjoy the "Special Incentives" mentioned above.

### D. Free zones:

- Besides the Public free Zones, the new Law has included again the "Private Free Zones", which are to be established by a prime minister's decree and each zone shall include several projects practicing similar activities.
- The following industries are prohibited from being established in the free zone: Petroleum (not including refining), Fertilizers, Iron & Steel, alcoholic substances, weapons, ammunition and explosives, Production, liquidation and transportation of natural gas and Energy-intensive industries.
- Goods exported by free zone projects and goods, tools and equipment imported (for the purpose of practicing its activity) are exempted from custom taxes, value added taxes and 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 100,000 EGP.

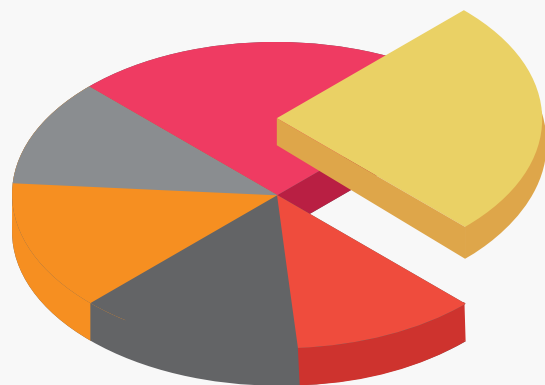
## Investors services centre

- A new department shall be opened in the General Authority for Investment "GAFI" (Investors Services Centre), this centre shall include representatives for all competent authorities and will provide incorporation, post incorporation services and permits electronically for all types of legal entities & whether subject to Companies or Investment Law.
- The centre shall decide upon the investment requests within no later than 60 days from the date of submission (including all the required documentation), otherwise the application shall be deemed approved.
- With regards to the approvals/permits, the Law has provided 2 business days 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.

## Ratifications offices

JSC which exclusive activity is "Rectification Offices" and satisfying certain criteria and conditions may be licensed by GAFI as "Ratification Offices", whereby it will have the right to review the documents submitted by the investor to obtain a certain permit / license / approval and issue a ratification certificate testifying the compliance of the project with the requirements of such permit/license/ approval.

This certificate shall be valid for one year only, and shall be deemed an official document acceptable in front of the competent authorities which cannot reject it except through a justifiable objection within no later than 10 days from the date of submission.





## Simplified incorporation procedures

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

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 law and the companies law 159/1981, shall publish annually a list of the companies benefiting from the incentives stipulates upon in this law, also a list of the companies benefiting from the government lands according to this 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.

## Closing business

**For JSCs and LLCs a liquidator needs 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.
- Deregister 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 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.



## Introduction of a new health insurance system in Egypt

Egypt is embarking on implementing a new comprehensive health insurance system, starting from the financial year 2019. This new system will be implemented within a 15 years period and over six phases.

Each phase will comprise five governorates at a time, whereby Cairo and Giza governorates, among others, will be in the final phase of implementation.

The new health insurance system will be financed through sever 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 new health insurance system will be 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 portion of the salary subject to social insurance 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 portion of the 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 of reciprocal treatment by 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.



## 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.

### E-filing of corporate income tax returns:

The ETA has decided to apply the electronic filing (“e-filing”) of income tax returns starting from this financial year, hence the e-filing of tax returns by taxpayers on the ETA’s website has become mandatory. As for individual taxpayers, they still have the option to pay their annual income taxes due electronically or manually.

The taxpayers (i.e. other than the individuals) will accordingly be required to register on the ETA’s website to create an account and to obtain a username, password and a specific code that will be provided to their tax advisor. 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. Prior to electronically submitting the return, both the taxpayer and the tax advisor will be required to sign-off the income tax return.

Upon submission of the 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.

### 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.
- The CBE rate for the financial year 2019 is 17.25%.
- In addition to this, the company should be considering the arm’s length principle for related party financing.
- Costs of importation;
- Costs of setting up in Egypt;
- Administrative and other related expenses, and
- Depreciation expenses.
- 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
- Building used for sales
- Offices
- Factories
- Workshops
- Places of extraction of natural resources.
- Farms.

## 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 have recently been updated as follows:

- Contracting and supplying 1%
- All types of services 3.0%
- Commissions 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.

It’s worth noting, that capital gains (i.e. gains arising from the sale of securities) can’t be offset against operational carried forward tax losses, which is prescribed above. More details about capital gains and losses are provided under the “capital gains and losses on securities” section, below.

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

The first part of the Egyptian TP Guidelines, 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 the 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 TP, of the income tax law that relate to the Egyptian TP. Such amendments were a prelude to the Final Egyptian TP

Guidelines which were released recently on the 23 of October 2018.

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

## 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 reporting 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 CBC reporting 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 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 Organization of Economic Cooperation and Development's ("OECD") threshold of 750 million Euro and required to file a report with the jurisdiction in which the ultimate parent entity is resident.
- 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 entity by entity local files must be submitted to the ETA within two months following the date of filing the tax return.
- The CbC report should generally be submitted one year following the close of the relevant financial year that it covers. The first CbC report should be prepared for the group's financial year ending December 2018.

## 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 Guidance on the APA program is contained within a new part two of the EGTP, which describes the mechanisms, procedures and implementation of the program in Egypt.

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 60 days 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.

## Capital gains and losses on securities

A Capital Gains Tax was introduced for the first time in 2014 and was subsequently amended in August 2015.

**Sale of listed securities:** Capital gains realized from the sale of listed Egyptian securities 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.

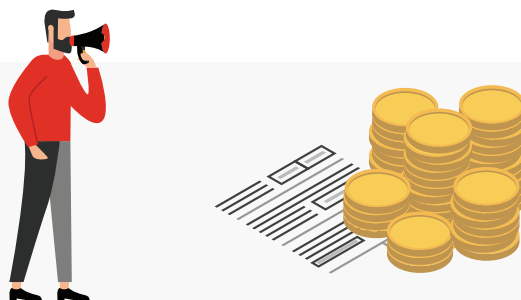
Such suspension on capital gains was extended as of May 2017 for another three years, and therefore ends on the 17th of May 2020. And accordingly, no capital gains tax shall be collected or withheld before 17th of May 2020 with respect to listed securities.

**Sale of unlisted securities:** Capital gains realized from the sale of unlisted Egyptian securities by both resident and non-resident shareholders are subject to a capital gains tax at the rate of 22.5%. and individual shareholders (progressive rates of up to 22.5%).

## 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, to the extent that they both arise in the same tax year.

In case of excess capital losses which are not utilized during a tax year, they can be carried forward for three years and offset against capital gains arising from the sale of securities during this period.



## 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.

## Base Erosion and Profit Shifting (“BEPS”)

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

More than a year ago Egypt signed an inclusive framework agreement with the OECD, to become a member to the BEPS Project. Accordingly, Egypt has signed the multilateral instrument agreement with the BEPS member countries, and should start implementing it soon. Such agreement requires the implementation of the minimum standards action points of the BEPS Project (i.e. four actions only) in order to cope with the dramatic changes being introduced to the tax environment.

## 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 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's 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.

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## Taxable income

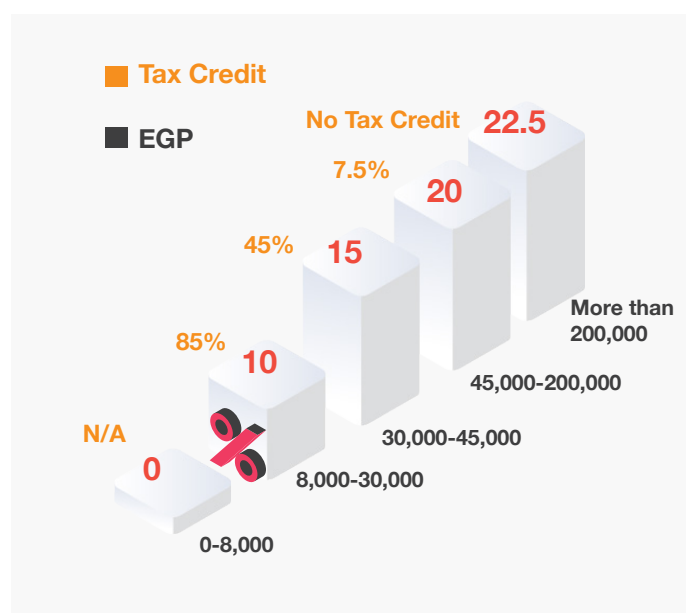
Taxable income is defined as payment from employment, including salaries, wages, overtime, bonuses, paid leave, commissions, profit shares and all cash and in-kind benefits. Reimbursement for expenses of spouses and dependents is also considered taxable income. In addition, school tuition fees, long-term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

Employees are taxed according to the following brackets; and are entitled to annual salary tax exemptions (EGP 7,000):



Non-resident employees are subject to tax at the same tax brackets mentioned above with also the annual exemption of EGP 7,000.

The tax due is to be calculated at the rate noted for each bracket, and the tax credits should apply accordingly to the relevant income bracket for the taxpayer. Nevertheless, for those taxpayers whose income falls within the fifth bracket, no tax credit is to be provided.

## 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.

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:

On the 8 September 2016, the VAT Law was issued under the Law no. 67 of 2016. It is an indirect tax on the domestic consumption of goods and services, at each phase of the supply chain.

The law enforced two different types of taxes which are the VAT and the schedule tax/excise tax. The VAT's standard rate is 14% (the rate was 13% from the date of law enforcement till July 2017), it is levied on all the taxable goods and services; except for some others exempted. On the other hand, the Schedule Tax is levied only once on specific goods and services.

The standard VAT rate, as of the 1 July, became 14%, applicable on all goods and services, except for machinery and equipment used for production purposes, which are subject to a 5% VAT (although buses and passenger cars are subject to different tax rates).

Exported goods and services are subjected to 0%. The threshold for registration is EGP 500,000 of the annual turnover.

### 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 a 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 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.

## 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.

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

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.

## Registration requirements

- Businesses supplying taxable goods and services, reaching the threshold (i.e. EGP 500K) under the VAT law are obligated to register within 30 days from the date of reaching the VAT registration threshold.
- Every producer, provider or importer of a commodity/ service subject to the schedule tax (i.e. 5% or 10%) should have himself registered as per the Egyptian VAT Law, regardless the volume of sales or production.
- 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 (i.e. 5% or 10%) should have himself registered as per the Egyptian VAT Law, regardless the volume of sales or production.
- 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.



## Administration

The VAT returns must be submitted on a monthly basis, and the deadline for submitting the tax returns is within two months from the end of each tax period, except for April returns that should be submitted by the 15th of June.

As mentioned above, all companies must register on the tax authority's web site to be able to submit all their kinds of tax forms online as hard copy tax returns are not acceptable anymore.

## 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.

Customs duty rates on imported goods range from 5% to 60%, with the exception of vehicles, non-essential 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

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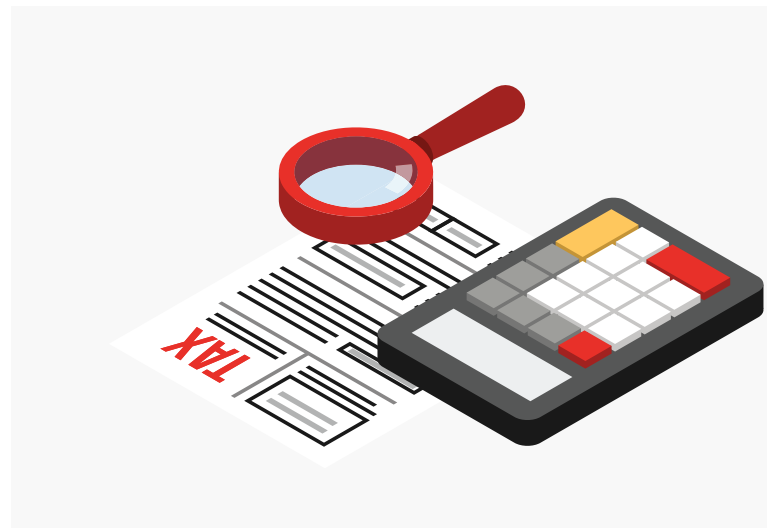
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## Other taxes

### Stamp Tax

- There are two distinct types of taxes: Nominal Stamp Tax, which is imposed on certain documents, regardless of their value; at the rate of EGP 0.9 per paper. (Please note that the USD equivalent of EGP 0.9 amount depends on the daily CBE conversion rate, due to the flotation of the Egyptian pound); 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 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 notable that such stamp tax is due to 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 buying or 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 should apply the stamp duty on the total proceeds based on the following rates:

- 1.5 per thousand imposed on the buyer and 1.5 per thousand imposed on the seller from June 1st, 2018 till May 31st, 2019 (i.e. 0.15%)
- 1.75 per thousand imposed on the buyer and 1.75 per thousand imposed on the seller from June 1st, 2019 (i.e. 0.175%).

However, if the sale transaction exceeds 33%, then such transaction would be considered as 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.



## 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).





## 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, include 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 month 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.

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).

IFRS 15: new requirements for revenue recognition

The IASB and the FASB have jointly developed new revenue standards, IFRS 15/ASC 606 revenue from contracts with Customers, which will replace all existing IFRS and virtually all US GAAP revenue recognition requirements.

It will require the disclosure of new information about customer contracts that hasn't previously been required and the creation of budgets and forecasts on a new basis of measurement.

The new IFRS standard is effective for annual periods beginning on or after 1 January 2018 and early adoption is permitted.

## IFRS 16: The new leases standard

### What's new in IFRS 16?

At the simplest level, the accounting treatment of leases by lessees will change fundamentally. IFRS 16 eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting.

Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.

### The impacts

For lessees, the lease becomes an on-balance sheet liability that attracts interest, together with a new asset on the other side of the balance sheet. In other words, lessees will appear to become more asset-rich but also more heavily indebted. The impacts are not limited to the balance sheet. There are also changes in accounting over the life of the lease. In particular, companies will now recognize a front-loaded pattern of expense for most leases, even when they pay constant annual rentals.

All companies will need to assess the extent of the standard's impacts so that they can address the wider business implications – and can expect analysts to take a close interest. Areas of focus may include:

- The effect of the standard on financial results;
- The costs of implementation; and
- Any proposed changes to business practices.

### Effective date and next steps

The new standard took effect in January 2019. Before then, companies will need to analyse their leases, and make new estimates and calculations that will need to be updated periodically. If you haven't done so already, you need to start looking at your contracts now.

## Currency devaluation:

As of 3 November 2016, The Central Bank of Egypt has decided to free float its currency. As a result of this extraordinary economic measure, most entities experienced an extraordinary amount of forex in the mentioned date, due to the monetary assets and liabilities in foreign currencies which affects the net activity of these entities significantly.

These events required the issuance of an annex to the Egyptian Accounting Standard number 13 on the 7th of February 2016 to deal with the effects of the changes in the foreign exchange rates in 2016, which stipulate upon an optional and exceptional accounting treatments to represent the effect of free floating the Egyptian currency in financial statements for entities with EGP as its functional currency.

## ERP control

In order to keep up with the wide usage of enterprise resource planning (ERP) systems and to be able to meet the international standards, ERPs are required to meet certain criteria in order to be valid by the tax authority.

Suppliers (companies) that use ERP systems must maintain electronic accounts that clarify their annual revenues and costs for at least 5 years including the documents related to those revenues and costs.

## 1. General controls

- Segregation of Duties
- Documentation
- Control over the automated assets
- Control and security over the ERP system

## 2. Application controls

- Input Controls
- Processing Controls
- Output Controls

## 3. Financial reporting and tax controls

- General Provisions
- Controls over applying the General Ledger
- Controls over applying the Revenues
- Controls over applying the Purchases
- Controls over applying the inventories.



## 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 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 1,510.
- Variable - 24% and 11% for employers and employees respectively up to a maximum of EGP 4,040.



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 105.70.

### **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 750 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.





## Egypt key tax indicators

Tax indicators	Resident	Non-resident *
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 capital gains on listed securities has been exempt from the 10% capital gains tax, since May 2015. And such exemption was supposed to end by May 2017. In May 2017, however, another extension period of 3 years was provided by the government for this exemption, and accordingly the exemption will end in May 2020.	Generally, 10% if shares are listed on the Egyptian stock exchange. This capital gains on listed securities has been exempt from the 10% capital gains tax, since May 2015. And such exemption was supposed to end by May 2017. In May 2017, however, another extension period of 3 years was provided by the government for this exemption, and accordingly the exemption will end in May 2020.
Value added tax	A standard rate of 13% for FY16-FY17 and 14% starting from FY17-FY18 will be applied to all goods and services, except for machinery and equipment that will be subject to 5%.	Reverse charge mechanism - whereby transactions involving non-residents providing services / royalties to Egyptian resident entities have become subject to VAT in Egypt.
<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 payments on loans of a duration more than three years in Egypt are exempt from WHT in Egypt.
Royalties	Not Applicable	20%
Management service fees	Not Applicable	20%
<b>Customs</b>	Goods : 0% to 60% 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, Pakistan, Palestinian Territories, Poland, Romania, Russia, Serbia & Montenegro, Singapore, South Africa, Spain, Sweden, Switzerland, Syria, Tunisia, Turkey, Ukraine, United Arab Emirates, United Kingdom, United States and Yemen  Please note that, the treaty with Oman and Sudan is still pending and has not been enforced yet.	
<b>Treaties awaiting conclusion or ratification</b>	Armenia, Croatia, Ethiopia, Mongolia, Oman, Saudi Arabia, Slovakia, Slovenia, Sudan, Thailand, Vietnam. Please note that, Egypt has treaties with Oman and Saudi Arabia, however they are still pending.	

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

# About PwC Middle East

Established in the region for 40 years, PwC has more than 5,200 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.



Our regional team operates across the Middle East bringing international experience delivered within the context of the region and its culture. We can bring the collective knowledge and experience of more than 250,000 people across the entire global PwC network in advisory, assurance and tax to help you find the value you are looking for.

The Middle East Tax & Legal practice offers expertise across the region and can provide assistance with the following areas:

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

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