



## International tax

# Egypt Highlights 2016

### Investment basics:

**Currency** – Egyptian Pound (EGP)

**Foreign exchange control** – The Central Bank of Egypt imposes some restrictions on the export of capital and the repatriation of funds.

**Accounting principles/financial statements** – Corporate taxable profits are calculated primarily according to Egyptian Accounting Standards and adjusted by specific provisions based on the tax law.

**Principal business entities** – These are the joint stock company, limited liability company, partnership limited by shares, limited and unlimited partnership, branch and representative office of a foreign company.

### Corporate taxation:

**Residence** – A company is resident if it is established according to Egyptian law, if its main or actual headquarters is in Egypt or it is a company in which the state or a public juridical person owns more than 50% of the capital.

**Basis** – Resident companies are taxed on their worldwide income; nonresident companies are taxed only on Egyptian-source income.

**Taxable income** – Corporate tax is imposed on the total profits of a company after the deduction of expenses incurred for earning the profits.

**Taxation of dividends** – A “dividend exemption” mechanism exists under Egyptian tax law under which dividends received by a resident parent company from another entity (whether or not resident) are exempt from corporate income tax after adding an amount equal to 10% of the distributed dividends to the Egyptian taxable profits. This mechanism will apply where the Egyptian resident parent holds more than 25% of the shares of the subsidiary for at least two years before the distribution or, if the holding period is not met at the time of the distribution, the parent commits to hold the shares for two years.

Otherwise, dividends distributed by a resident entity to another resident entity are excluded from the ordinary income tax pool after adding the related costs.

**Capital gains** – Capital gains derived by a resident or nonresident company from the sale of shares listed on the Egyptian stock exchange are subject to a 10% corporate income tax in a separate income pool. However, this tax is suspended for two years as from 17 May 2015.

Capital gains derived by a resident or a nonresident entity from the disposal of unlisted shares in Egyptian companies are included in taxable income and taxed at the standard corporate tax rate.

**Losses** – Losses may be carried forward for five years (three years for losses incurred on the trading of shares). The carryback of losses is not permitted, except for losses incurred by a construction company on long-term contracts.

**Rate** – The standard corporate income tax rate is 22.5%. Companies engaged in the exploration and production of oil and gas are taxed at a rate of 40.55%.

**Surtax** – No

**Alternative minimum tax** – No

**Foreign tax credit** – Foreign taxes paid overseas may be deducted from Egyptian income tax payable, but the deduction may not exceed the total tax payable in Egypt.

**Participation exemption** – Under the participation exemption, 90% of dividends received by a resident parent company are exempt from tax if the Egyptian parent holds at least 25% of the share capital or voting rights of the payer for at least two years from the date the shares are acquired, or if the holding period is not met at the time of the distribution, the parent commits to hold the shares for two years.

**Holding company regime** – No

**Incentives** – Projects established under the free zone system are not subject to tax or duties in Egypt.

### Withholding tax:

**Dividends** – Dividends paid to a resident or a nonresident entity are subject to a 10% withholding tax. The rate on dividends paid to a nonresident is reduced to 5% where the corporate recipient holds at least 25% of the capital or voting rights in the payer company for at least two years, unless the rate is further reduced under a tax treaty.

**Interest** – Interest paid to a nonresident is subject to a 20% withholding tax, unless the rate is reduced under a tax treaty. Interest paid on a long-term loan (i.e. a loan with a term of at least three years) is not subject to withholding tax.

**Royalties** – Royalty payments made to a nonresident are subject to a 20% withholding tax, unless the rate is reduced under a tax treaty.

**Technical service fees** – Egyptian tax law does not have specific withholding tax rules governing technical service fees, although the tax authorities may treat such payments as royalties for withholding tax purposes (and, thus, taxable at 20%). The tax treatment will depend on the scope of the services provided and will be determined on a case-by-case basis.

**Branch remittance tax** – Profits realized by a branch or permanent establishment of a foreign company are deemed distributed to the head office within 60 days from the year-end and are subject to the

5% dividend withholding tax, subject to the provisions of an applicable tax treaty.

### Other taxes on corporations:

**Capital duty** – No

**Payroll tax** – No

**Real property tax** – Most real property in Egypt is subject to the real estate tax. A 10% rate applies on the annual rental value after allowing a 32% deduction to cover related costs for nonresidential property and a 30% deduction for residential property. Exemptions are provided for nonresidential property that is used for commercial, industrial and administrative purposes with an annual rental value of less than EGP 1,200 and residential units with an annual rental value of less than EGP 24,000. The user of the property pays the tax, which is due in two installments. The annual rental value of real estate is assessed every five years.

**Social security** – The social security regime applies only to local nationals, unless a social security agreement with another country applies.

**Stamp duty** – Stamp duty is charged at variable and fixed rates: 0.1% per quarter for banking transactions; 20% on commercial advertisements; and rates ranging from 0.08% to 10% on insurance premiums.

**Transfer tax** – No

**Other** – Statutory payments to employees under profit-sharing regulations may not be deducted for corporate income tax purposes and are not subject to the salary tax.

### Anti-avoidance rules:

**Transfer pricing** – Related party transactions must be conducted on arm's length terms. Transfer pricing rules apply to the exchange of goods, services and the licensing of intangibles (brand, technology etc.), as well as to loans (financing, guarantee fees, cash pooling agreements, etc.). Five transfer pricing methods are specified: comparable uncontrolled price, resale price, total cost plus profit margin, profit split and the transactional net margin methods, with priority given to the comparable uncontrolled price method. However, if the information needed to apply this method is unavailable, the other methods are used in a hierarchical order. The transfer pricing rules recommend that taxpayers follow a four-step approach to demonstrate that their controlled transactions are in accordance with the arm's length principle.

Egyptian taxpayers are expected to prepare transfer pricing documentation annually.

Advance pricing agreements (APAs) are allowed under Egyptian tax law, but there are no formalized procedures for applying for an APA.

**Thin capitalization** – A 4:1 debt-to-equity ratio applies. Any interest on debt exceeding this ratio is disallowed.

**Controlled foreign companies** – Income from investments in nonresident companies is recognized under the equity method of revenue recognition and is taxed in Egypt if: (1) the Egyptian entity owns more than 10% of the nonresident entity; (2) more than 70% of the nonresident company's income is derived from dividends, interest, royalties, management fees or rental fees; and (3) the profits of the nonresident entity are not subject to tax in its country of residence, are exempt or are subject to a tax rate of less than 75% of the tax rate in Egypt.

**Disclosure requirements** – No

**Other** – General anti-avoidance rules have been introduced into Egyptian tax law, under which if an essential purpose of any transaction is tax savings or the deferral of tax, the transaction may be adjusted to eliminate the benefit.

### Compliance for corporations:

**Tax year** – Accounting year

**Consolidated returns** – Consolidated returns are not permitted; each company must file a separate return.

**Filing requirements** – Companies must file a tax return within four months following the end of the financial year. Tax is assessed on the basis of the information provided in the tax return.

**Penalties** – Various penalties apply for failure to apply the system of withholding, collection and remittance of tax; failure to file a return and other offenses.

**Rulings** – Taxpayers may apply for an advance ruling by submitting a written request and copies of relevant documents to the tax authorities. The tax authorities will issue a decision on the request within 60 days.

### Personal taxation:

**Basis** – A resident individual is taxable on his/her worldwide income if Egypt is the "center of his/her commercial interests." A nonresident individual is taxed only on his/her Egyptian-source income.

**Residence** – An individual is resident if he/she is present in Egypt for more than 183 days in a fiscal year; is deemed to have a permanent abode in Egypt; or is an Egyptian national residing abroad, but derives income from Egyptian sources.

**Filing status** – Each individual must file a return; spouses are not permitted to file a joint return.

**Taxable income** – Taxable income includes income from employment, income from commercial or industrial activities and income from noncommercial activities (i.e. professional services). Mandatory profit sharing, pensions and end-of-service bonuses are not subject to salary tax.

**Capital gains** – Capital gains realized by a resident or nonresident individual on the sale of listed shares are subject to a 10% income tax in a separate income pool. However, this tax has been suspended for two years as from 17 May 2015.

Capital gains realized on the sale of unlisted shares by resident or nonresident individuals are subject to progressive tax rates up to 22.5%.

Income derived from the sale of assets in a sole proprietorship becomes part of an individual's taxable base (including the sale of sole proprietorship real estate). If not classified as sole proprietorship assets, real estate values are subject to a separate tax of 2.5% on the gross proceeds.

**Deductions and allowances** – Available deductions depend on the type of income. Various allowances are available for items, such as social security contributions and health insurance premiums.

**Rates** – Progressive rates up to 22.5% are levied on all types of income derived by individuals (including income from employment). Resident employees who derive income from a secondary employer are subject to tax at a flat rate of 10%.

Dividend income received by resident individuals are taxed at a rate of 10%; the rate is reduced to 5% if the individual holds more than 25% of the capital or voting rights of the distributing entity for at least two years.

For capital gains tax rates, see under "Capital gains."

### Other taxes on individuals:

**Capital duty** – No

**Stamp duty** – Stamp duty is charged at variable and fixed rates. The rate on banking transactions is 0.1% per quarter; the rate is 20% on commercial advertisements and the rate ranges from 0.08% to 10% on insurance premiums.

**Capital acquisitions tax** – No

**Real property tax** – Most real property in Egypt is subject to the real estate tax. A 10% rate applies on the annual rental value after allowing a 30% deduction to cover related costs for residential property and a 32% deduction for nonresidential property. Exemptions are provided for residential units with an annual rental value of less than EGP 24,000 and nonresidential property that is used for commercial, industrial and administrative purposes with an annual rental value of less than EGP 1,200. The user of the property pays the tax, which is due in two installments. The annual rental value of real estate is assessed every five years.

**Inheritance/estate tax** – No

**Net wealth/net worth tax** – No

**Social security** – The social security regime applies only to local nationals, unless a social security agreement with another country applies.

### Compliance for individuals:

**Tax year** – Calendar year

**Filing and payment** – Individuals must submit a declaration of

income before 1 April following the end of the tax year and pay tax based on the declaration.

The employer is responsible for withholding and paying salary tax to the tax authorities on a monthly basis. However, if the employee is paid from an offshore source, the employee must declare his/her income and benefits for the entire year and pay it to the tax authorities with the annual income tax return before 31 January of the following year.

**Penalties** – A penalty of not less than EGP 5,000 and not more than EGP 20,000 is imposed for failure to file a tax return.

### Value added tax:

**Taxable transactions** – Sales tax applies to the supply of most goods and the provision of services. The sales tax does not operate like a VAT, and input sales tax represents a cost to many businesses.

A VAT law is expected to be introduced in 2016 to replace the sales tax law.

**Rates** – The standard rate ranges from 10% to 25% on most items.

**Registration** – Manufacturers and service providers with turnover exceeding EGP 54,000 must register for sales tax purposes. Wholesalers and retailers are required to register if their turnover exceeds EGP 150,000.

**Filing and payment** – All companies must prepare and file a monthly sales tax return with the relevant tax authorities.

**Source of tax law:** Income Tax Law, Law 91 (2005), Sales Tax Law No. 11 (1991), Real Estate Law No. 196 (2008)

**Tax treaties:** Egypt has concluded 56 tax treaties

**Tax authorities:** Egyptian Tax Authority

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