



**RSM** The Advisors

**A Guide to Taxation in Egypt**

For business entities and individuals operating in Egypt

First Edition

## General

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Taxes in Egypt may be divided into two categories. The first one concerns direct taxation of individuals and legal entities on their income or profit. The second involves indirect taxation of goods, services and events. The Egyptian taxation framework is statutory based. Tax administrators are given, under the relevant legislation, few discretionary powers. Courts are primarily responsible for the interpretation of statutes. The nature of the Civil Law system operating in Egypt allows precedent to have an influential but not necessarily a binding effect.

## Corporate Income Taxes

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### Introduction:

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### Taxable Parties

The Egyptian corporate tax regime applies to joint stock companies, limited liability companies, partnerships limited by shares, foreign companies and branches of foreign companies whose head office is situated abroad. This tax is also applicable to banks and public sector companies. It should be noted that general partnerships and simple limited partnerships are not taxable entities under Egyptian law. The partners in such partnerships are personally liable for the tax due on their respective shares in the partnership's profit. Partners, therefore, are taxed in the same manner as individuals.

### Group of Companies

In general, Egyptian tax law treats every company in a group of companies as an independent unit. No provision is made for affiliated companies to file a consolidated return or for the losses of one company in a group of companies to be deducted from the profits of others in the same group. Fixed assets may not be transferred tax free between affiliated companies.

### Foreign Branches

- Branches of foreign entities operating in Egypt are subject to the same corporate income taxes and tax exemptions as their Egyptian counterparts.
- If a branch of a foreign company fails to keep proper books, the Egyptian tax authorities will seek to assess tax on a proportion of the foreign company's worldwide profits.
- No withholding tax is imposed on a branch on its payments to its head office abroad or on dividends paid by the locally incorporated subsidiary to its foreign parent company. It is not usually possible to set up a branch under Investment Law No. 8/1997, except in the free zones.
- Dividends and interest received from abroad, and the net of foreign taxes paid, are subject to the tax on moveable funds at 32%. Citizens from countries having double taxation treaties with Egypt are treated in accordance to these agreements.

### Treaties for the Prevention of Double Taxation

Egypt has concluded treaties for the prevention of double taxation with a number of countries, including: Austria, Canada, Cyprus, Denmark, Finland, France, Germany, India, Iraq, Italy, Japan, Libya, Norway, Oman, Pakistan, Romania, Singapore, Sudan, Sweden, Switzerland, Syria, Tunisia, the United Kingdom and the United States. Draft treaties, which have not yet been ratified, were concluded with Indonesia, Korea, Malaysia and Morocco. It is notable that since Egypt does not levy withholding tax on dividends, its tax treaties provide reduced withholding tax rates only for interest and royalties. In the absence of a tax treaty, unilateral tax relief is available by way of deduction rather than by a tax credit.

## Tax Rates

New Law	Tax	Old Law	Tax
Most Firms	20%	Standard Corporate Income Tax	40%
Suez Canal Profits	40%	Industrial & Export Companies	32%
Egyptian Petroleum Authority	40%	Oil Exploration & Production Companies	40.55%
Central Bank of Egypt	40%		
Oil Exploration & Production Companies	40.55%		

## Withholding Tax

Any business operating in Egypt must withhold against any payments-- made to any contractor or supplier of goods or services--. There is no withholding tax on dividends. Taxes on income from moveable capital and salaries are withheld at source. Amounts withheld are paid quarterly to the Tax Department. The following basic percentages:

- Contracting and supplying: 1%
- Services: 3%
- Commissions: 10%
- Professional fees (under LE 500): 10%
- Professional fees (over LE 500): 15%
- Leasing of property or selling of goods for trading or manufacturing: 1% - 5% (to be added on the payee's tax liability account).

## Corporate Tax Exemptions and Deductions

- Almost all business expenses are deductible including depreciation, interest, royalties, rent, profit sharing payments to employees, legal expenses, pension and Egyptian state social insurance contributions.
- Profits of companies located in the free zones.
- Tax exemptions on capital gains are applicable in some cases of asset replacement.
- All tax holidays granted under Investment Law No.8/1997.
- Joint stock companies employing more than 50 employees and maintaining proper books of accounts are granted a tax holiday for a five-year period. Also, hotels and tourist projects are granted a tax holiday for a five-year period which can be extended to ten years if the project is located in a remote area.
- Transfers to provisions or reserves to meet specific losses or financial commitments that are certain to occur, even if the amount is not yet determined, may be deducted, up to 5% of annual net profits.
- For joint stock companies listed in the stock market, a deductible allowance is made that is equal to interest income, which can be earned on a bank deposit (currently 10.5 percent). In other words, taxes are only charged when the rate of return is above the market rate of interest.
- Ninety percent of income generated by companies from their movable capitals which have been subject to the new tax imposed by Law 187 of 1993. This 90 percent is not applicable if the income is generated from the main activities of the company. It is also not applicable for dividends received on shares in another Egyptian company. The 90 percent deduction also applies to income from real estate owned by the company.

- Donations to the government, local authorities, and public bodies are deductible without limit. Donations to legally registered charitable institutions and social welfare organizations and to educational institutions and hospitals under government supervision are deductible up to 7% of net profits per year.
- Bad debts written off are deductible. Provisions against specific doubtful accounts are deductible, as long as together with other provisions for specific losses they do not exceed 5% of net profits per year.
- Losses may be carried forward and applied against future profits for up to five years.
- Bonuses to employees, amounting to three months of salaries or wages are deductible.

## Personal Income Tax

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### Introduction:

Law No. 187 of 1993, also known as the Unified Tax Law, abolished the general income tax previously levied on individuals pursuant to Tax Law No. 157 of 1981.

### Taxable Parties

The Egyptian corporate tax regime applies to joint stock companies, limited liability companies, partnerships limited by shares, foreign companies and branches of foreign companies whose head office is situated abroad. This tax is also applicable to banks and public sector companies. It should be noted that general partnerships and simple limited partnerships are not taxable entities under Egyptian law. The partners in such partnerships are personally liable for the tax due on their respective shares in the partnership's profit. Partners, therefore, are taxed in the same manner as individuals.

### Taxable Income

Taxable income for resident individuals is defined as income generated from Egyptian sources. Income generated outside Egypt may also be taxable but the rules vary for each taxpayer. Tax Law No. 187 of 1993 distinguishes among the following categories of income of individuals (as well as partners in partnerships):

- Salaries and wages.
- Commercial and industrial profits
- Income from immovable property
- Income from movable capital
- Noncommercial profits.

### Taxation of Foreigners

Foreigners that have been working in the country for more than 183 days with their annual salaries varying from LE 1.00 to LE 50,000 are subject to paying a 20 percent income tax. However, if the employee's annual income exceeds LE 50,000 then they will be liable to pay 32 percent income tax.

For foreigners who do not have a work permit, the tax burden is transferred from the employee to the employer. This includes multinationals that have to pay a tax on employees hired abroad.

The manager of a foreign company's representative office in Egypt is liable to taxation on the portion of his salary that is related to his services rendered in Egypt only. Foreign experts who are employed for more than six months during the tax year are eligible for deductions and reliefs. However, those who already pay taxes to their home governments will not have to worry about paying taxes twice due to "the non-double tax treaty" that Egypt has signed with many countries.

### General Tax on Income

In addition to the specific taxes that are levied on specific types of income as mentioned above, the Egyptian legislature has imposed a general tax on income, which is applicable to individuals. This tax is an additional tax, and the tax base is regarded as the total net income that the individual receives during the year. Only income that is subject to a specific tax is included in the tax base for the general tax on income.

The general tax on income is progressive and reaches 65 percent for income in excess of £E200,000 per annum. It should be noted that foreign employees in Egypt are subject to this tax unless there is a particular statutory or regulatory provision exempting them from the tax.

## Exemptions and Deductions

The following are the exemptions from the general income tax on salaries and income. The aggregate on these, however, must not exceed LE 4,000 per year:

- Occupational allowances up to LE 480 per year.
- Representation allowances up to LE 2,500 per year.
- Production incentive bonuses up to LE 3,000 per year.

The following items are also exempted:

- Pensions with respect to employment or services rendered in Egypt.
- Free or reduced fare tickets provided to employees and their families by airlines and shipping companies who are operating in Egypt.
- Housing benefits for foreign expatriates.
- Premium for life insurance in the benefit of the taxpayer, his/her spouse, or their minor children.

The premium should be the least of LE 1,000 or up to 15 percent of net income.

- Employee's share in social insurance contribution.
- Cost of living allowance.
- Percent of remuneration to cover expenses related to employment. Also LE 2,000 per year as earned income allowance.

## Other Taxes

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### Sales Tax

All non-exempted domestic and imported goods and services are subject to the sales tax according to Law 11 of 1991. The tax is due upon the sale of goods or rendering of services. The following are exempted from the sales tax:

- Personal belongings of embassy and consular staffs, except food, alcohol and tobacco.
- Local dairy products
- Bread and pasta made from local flour
- Meat and fish except caviar and smoked fish
- Domestic fruits and vegetables
- Paper, books and magazines
- Natural gas, butane gas and petrol
- Food industry wastes used for fish feed
- Goods and services exported outside the country, goods and services imported into or exported outside Egypt from Free trade zones and goods in transit.

The sales tax is calculated either as a percentage of the value of the good or as a fixed rate per kilo or ton. It varies according to the good, whether it is produced locally or imported; taxes on imported goods are higher. The value of the locally produced good is determined by the market value of the good whereas in the case of imported goods it is calculated as that applicable for customs duty purposes plus the customs duty.

In 2001, law No.17 was enacted to implement the second and third phases of the sales tax. The new phases require that all producers and importers be registered with the Sales Tax Authority, keep regular accounting records, issue invoices for sold goods and rendered services and make monthly declarations of the tax due. The declaration must be made within 60 days following the end of the accounting month, whether or not any taxable sales or services occurred during that period. In case of failing to present a timely declaration, the Sale Tax Authority will estimate by itself the tax for the accounting period.

## Customs Tax

Customs tax is paid on imported goods as determined by the customs tariff. The rates have a wide range from 1 percent to 55 percent except for vehicles where the rate may go up to 100 percent and 135 percent. Imported machines and equipment by joint stock companies, limited partnerships and limited liability companies enjoy reduced rates of 5 percent of value. Other legal forms of businesses do not have this privilege. Exporters are eligible for tax reliefs on imports under duty drawback, temporary admission or tax rebate systems.

## Social Insurance Contributions

Employers must pay social insurance contributions to the Ministry of Social Insurance and Social Affairs with respect to their Egyptian employees. Egyptian employees also are liable for contributions. The social insurance laws do not generally apply to expatriate staff. Employees' contributions are withheld by the employer from the employees' salaries and wages each month and paid to the ministry; together with the employer's own contributions, within the first two weeks of the following month.

### Social Insurance Contribution Rates

	Employer(%)	Employee(%)
On basic monthly salary up to L.E. 500 / month	26	14
On variable pay (such as production incentive bonuses)-up to L.E. 500/month	24	11

For tradesmen and other workers employed by a contractor, contributions are paid on the basis of arbitrarily calculated wages, which can often be higher than the wages actually paid.

## Relevant websites

1. The Income Tax Law No. 91 of 2005. Cairo: The Ministry of Finance, 2005. Print.(available on the Egyptian Ministry of Finance website)
2. Egyptian Ministry of Finance. <<http://www.mof.gov.eg/english>>.
3. Egyptian Tax Authority. <<http://www.incometax.gov.eg/>>
4. "Taxation." Economic. Info-Prod Research (Middle East) Ltd.. <<http://www.infoprod.co.il/country/egypt2e.htm>>.
5. Your Gateway to Egypt. Egypt State Information Service . <<http://www.sis.gov.eg/En/>>.

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