



Chambers Global Practice Guides

Definitive global law guides offering
comparative analysis from top-ranked lawyers

Corporate Tax 2022

Egypt: Trends & Developments
Omar Sherif, Omneya Anas and Rokaya Ghoneim
Shalakany Law Office

practiceguides.chambers.com

Trends and Developments

Contributed by:

*Omar Sherif, Omneya Anas and Rokaya Ghoneim
Shalakany Law Office see p.6*



Corporate Tax under Egyptian Law

In light of the economic repercussions of the COVID-19 pandemic, authorities in Egypt have actively sought and implemented measures to ease the economic challenges faced. These measures primarily aim at enhancing investment opportunities on the Egyptian market through providing a more efficient and user-friendly taxation system.

The main financial authorities leading these changes are the Egyptian stock exchange (EGX), the Financial Regulatory Authority (FRA) and the Egyptian Tax Authority (ETA). Amendments to current practices and the establishment of new platforms that contribute to the enhancement of the Egyptian taxation system, as well as encourage investment in the country, include the digitalisation of tax procedures in terms of tax collection and registration on an electronic tax platform.

The impacts of recent changes to the tax system have been felt in transactions concerning listed securities as well as on the implementation of stamp tax and capital gains tax. The EGX and FRA have further rolled out new decisions aimed at exempting and offering incentives to foreign investors.

The Egyptian authorities have not stopped there. Further amendments aimed at improving commerce have been implemented through the enactment of amendments to the Value Added Tax Law that aim to create a more investment-

encouraging atmosphere and lower costs for foreign business owners.

Digitalising Tax Procedures

The ETA has taken active steps towards digitalising the tax system in Egypt to facilitate an easier and a more user-friendly tax system. In this regard, the ETA has, since 2018, expressed its desire to computerise the tax regime in Egypt by implementing the OECD recommendations on how to computerise and digitalise tax methods as an alternative to old bookkeeping procedures used to invoice and register taxes.

Following the enactment of said recommendations, the ETA has more actively introduced regulations to transform the tax system, including the issuance of a decree obliging all registered persons to submit all tax invoices through an electronic invoice system (the “E-Invoice System”), including therein said person’s electronic signature and the products’ or services’ unified code provided by the ETA.

The new E-Invoice System will facilitate a direct link between each of the companies’ tax files and the ETA’s digital platform, where different legal persons will invoice their taxes using the GS1 or the Global Product Classification (GPC) as a uniform coding system for their taxable products and services.

The E-Invoice System will contain the same information for all legal persons’ tax files and a unique identification code for each E-Invoice using the GS1 and GPC, and all the information

concerning the E-Invoice will be saved and readily displayed.

In addition to the above, the ETA has issued its Unified Tax Procedures Law, which sets out the country's single tax portal where all taxpayers are to file and pay all types of taxes, including income taxes, stamp taxes and VAT. Taxpayers are provided a unique registration number (ie, a login) that will give them access to the online platform. The platform not only encompasses tax paying, it also facilitates easier calculations, filing tax appeals and filing other requests, such as changing the activities of an entity.

The implementation of a one-stop e-platform for taxpayers has been a positive step towards greater tax transparency and easier tax treatments for entities. As of last year, all companies have been obliged to file their taxes electronically and have been afforded two years to be fully operational on the tax platform.

Amending Capital Gains and Stamp Tax

Egyptian authorities have sought to create a transaction-friendly environment for investors and traders, and, hence, introduced amendments to the Stamp Tax Law and Income Tax Law. Said amendments primarily involve an all-round decrease in the tax rates introduced to incentivise corporations to undertake transactions on Egyptian securities and, therefore, foster greater activity on the Egyptian market.

Capital gains tax

The imposition of capital gains taxes in Egypt has been in the spotlight for several years. Capital gains taxes realised from listed securities have been exempted for the better part of two years; however, they have made a comeback as of 1 January 2022. Although investors are not keen on this reintroduction, the tax rate imposed has nonetheless been reduced from a previous 22.5% to 10%.

On the bright side, and in line with the Cabinet's desire to foster greater foreign investment, foreign investors are now permanently exempt from paying capital gains tax when dealing in listed securities.

Stamp tax

In an attempt to increase the trading in shares, the stamp duty tax rates have witnessed a decrease. The stamp duty tax applicable on non-residents purchasing or selling securities has been reduced from 0.15% to 0.125%. As for residents, they are now subject to a stamp tax of 0.05% instead of 0.15%.

Listed securities, however, benefit from an all-round stamp duty tax exemption. As such, entities undertaking trading in listed securities will not be required to pay a stamp duty tax.

New Package of Tax Incentives

With the aim to further boost the competitiveness of the Egyptian stock market, incentives established by the EGX, the FRA and the Egyptian Cabinet were agreed during a meeting in November 2021. Although said incentives have yet to be ratified as law, they indicate the Cabinet's intention to continue encouraging the market.

The incentives agreed include a total exemption of stamp duty tax for residing investors (both buyers and sellers) dealing with securities on the EGX.

Additionally, in line with the Cabinet's focus on market growth, investors trading in newly listed securities that are subject to an IPO will enjoy a reduction of capital gains tax by 50% for a period of up to two years.

The payment of capital gains tax will be postponed until the closing of the share sale and/or the acquiring party is listed on the EGX. The

purpose of this incentive is to encourage listed companies to acquire non-listed companies and subsequently create larger entities that contribute to market growth.

Outside the realm of capital markets incentives, the Cabinet has further introduced incentives for the booming investment funds activities. In this regard, a tax exemption is proposed on venture capital investment funds when investing in start-ups' unlisted stocks. Exemptions from (i) capital gains tax, (ii) dividend distribution tax and (iii) income tax are also expected in favour of investment funds and venture capital firms.

In light of recent double taxation treaties (DDTs) signed by Egypt, the Cabinet has further announced new amendments that aim to avoid double taxation on dividends distributed between parent companies and their affiliates.

The above-mentioned package of incentives is expected to have a long-term positive impact on the Egyptian stock market and boost economic activity on the same. Additionally, tax exemptions will ultimately change the performance of equity investment funds as they will be further incentivised to increase their investments.

VAT Amendments

The most recent addition to the stack of tax initiatives aimed at encouraging and facilitating investment in Egypt is the amendments to the VAT Law, enacted on 26 January 2022 (the "VAT Amendments"). The VAT Amendments target various sectors in the Egyptian market, including different services and goods. The main focus of the VAT Amendments is encouraging investment in Egypt, particularly in Free and Special Economic Zones, as well as encouraging investment in the industrial production and healthcare sectors.

Advantages for Free Zones and Special Economic Zones

The VAT exemption applicable on all services and goods exported to foreign countries by projects operating in Free Zones' different areas, cities and markets has now been extended to cover those services and goods exported by projects operating in Special Economic Zones.

Additionally, the exemption applicable on all goods and services imported for the purpose of allowing projects within Free Zones to be more capable of achieving their licensed objectives in Egypt has been extended to cover Special Economic Zones. In this regard, it is important to highlight that said exemption is not applicable to the importation of transportation vehicles.

With regard to the above exemptions, projects located in Free Zones and Special Economic Zones do not benefit from the same if the purpose of importing said goods is for local use by the project in said zones. Local use includes:

- importation for the purpose of trading the same inside the zone;
- certain imported services and goods that are intended to be on the local market; and
- products and services manufactured by projects in the Free Zones and Special Economic Zones that are produced by imported goods and subject to local consumption and usage.

Advantages for the industrial and healthcare sector

Two of the most crucial sectors that have witnessed changes due to the COVID-19 pandemic are the industrial and healthcare sectors.

While the industrial sector experienced difficulties in light of global lockdowns, a decrease in demand and heavy financial burdens, the healthcare sector boomed due to increased need for medical supplies and innovations.

EGYPT TRENDS AND DEVELOPMENTS

Contributed by: Omar Sherif, Omneya Anas and Rokaya Ghoneim, Shalakany Law Office

The VAT Amendments have introduced a postponement on the collection of VAT for machinery and equipment imported from foreign countries or purchased from industrial local market and local production units for the purpose of industrial production. Said postponement is applicable for a period of one year from the customs release date in the case of imported machinery, and from the date of purchase of said equipment if the same is purchased from local markets.

As a heightened incentive, the ETA may apply an entire VAT exemption for machinery or equipment used for industrial production. To benefit from said exemption, the entity involved must refrain from the legal disposition of such machinery and equipment for a period of five years.

With regard to the healthcare sector, it seems fitting that VAT exemptions have been introduced in light of the ongoing COVID-19 pandemic. In this regard, the VAT Amendments have exempted the following medical instruments from VAT:

- medicinal drugs;
- pharmaceutical raw materials used in the manufacturing of medicinal drugs;
- artificial limbs and their parts;
- hearing aids and their parts;
- all medical devices used to mitigate or facilitate any disability;
- vaccines, booster shots and any equipment used therefor; and
- blood donations.

The above-mentioned VAT exemptions aim to attract foreign investors and business owners, and encourage them to establish projects in Egypt. They come at a crucial time when the

need for medical equipment has increased, and medical business owners are incentivised to produce more medical innovations to mitigate the impacts of the COVID-19 pandemic.

Conclusion

In summary, Egyptian regulators have been active in adapting and implementing new tax measures in light of global developments and in response to economic difficulties. The main drive has been to develop and streamline the taxation system to attract more investment as well as ease the procedures and cost for business owners to encourage greater market activities. This has particularly taken place through the reduction of taxes on transactions concerning listed securities and on investment and venture capital funds.

Moreover, the shift towards a digitalised tax system portrays the ETA's active response to global trends and the COVID-19 pandemic, which has inevitably required technology to take the forefront.

Shalakany Law Office has over a century of experience since its establishment in 1912, and has achieved a record of success and growth that today makes it one of the leading corporate law firms in Egypt and the Middle East. With over 60 lawyers and counsellors, including ten partners, and a support staff of over 80 qualified professionals, including 15 paralegals, Shalakany provides first-rate legal services to a broad base of multinational, regional and premium lo-

cal clients through its offices in Cairo, Alexandria and the Red Sea region. The firm is consistently ranked as a top-tier firm across almost all practice areas and has received various awards from internationally recognised legal ranking and professional association organisations. The firm is proud that many of its lawyers have been recognised as leading lawyers in their respective areas of practice year after year.

AUTHORS



Omar Sherif has been a member of the Egyptian Bar Association since 2009 and started his career as a dispute resolution lawyer before switching over to the Corporate and Transaction Department, giving him a well-rounded approach to the legal profession. Since then, Omar has deepened his expertise in almost all corporate commercial practices and has worked on several pathfinder and premium deals and projects on local, regional and cross-border levels. Omar has advised major regional and international clients spanning most industry sectors and has also worked alongside several globally renowned international law firms on numerous transactions.



Omneya Anas has been an associate in Shalakany's Project Development, Finance and Capital Markets Departments since 2017. Prior to joining Shalakany, Omneya enrolled at the Institut de Droit des Affaires Internationales, the Egyptian affiliate of Paris Pantheon-Sorbonne, where she obtained both her LLB and LLM. Omneya is involved in drafting and reviewing all types of contracts and has a deep understanding of corporate, commercial, oil and gas, projects, capital markets and tax issues, and has given legal opinion. Omneya has also worked on a number of high-profile merger and acquisition transactions that required an extensive and advanced level of due diligence reports.

Contributed by: Omar Sherif, Omneya Anas and Rokaya Ghoneim, Shalakany Law Office



Rokaya Ghoneim is an associate with Shalakany's Project Development, Finance and Capital Markets Departments. She joined the firm as a junior associate after

obtaining an LLM in International Business Law from King's College London. Rokaya drafts and reviews all types of contracts and has assisted in drafting legal opinions for various premium clients on different aspects of corporate, commercial, projects, capital markets and tax issues. Rokaya primarily handles mergers and acquisitions, and has worked on transactions that required extensive and advanced-level due diligence reports.

Shalakany Law Office

12 El Marashly St.
Zamalek
Cairo,
11211
Egypt

Tel: +20 2 272 88 888
Fax: +20 2 273 70 661
Email: mail@shalakany.com
Web: www.shalakany.com

