Tax Laws

Overview

The new Income Tax Law No. 91 of 2005 drastically amended the previous income tax rules in Egypt. Law 91 introduced a 50 per cent reduction in personal and corporate taxes, to a maximum rate of 20 per cent, and abolished all the income tax exemptions stipulated in Investment Law No. 8 of 1997 in relation to establishments that are incorporated after the law's entry into force (i.e. unified tax exemptions and legislation).

Main Provisions Regarding Natural Persons

Law No. 91 did not change the basic structure of the tax imposed on the total net income of natural persons residing in Egypt and those residing outside Egypt with incomes derived from permanent establishments in Egypt. The law states that this total net income is derived from the following sources:

- Salaries and wages of individuals
- Commercial and industrial activities of individuals
- Professional and non-commercial activities
- Income derived from immovable property

Income tax brackets are restructured into three categories, with tax rates set at 10, 15 and 20 per cent. Existing tax exemptions for annual earnings of under EGP 5,000 are doubled. Working spouses are eligible for an exemption of EGP 5,000 on wages, while civil servants receive a personal exemption of EGP 4,000 annually.

Main Provisions Regarding Juristic Persons

The definition of "juristic persons" includes all types of companies, as well as foreign banks and foreign establishments, even if their headquarters are situated outside Egypt and their branches are in Egypt. For juristic persons residing in Egypt the tax is imposed on net yearly profits from all activities, both in Egypt and abroad; for juristic persons not residing in Egypt the tax is imposed on net profits derived from a permanent business establishment in Egypt only.

The taxable profit of juristic persons consists of the total revenue minus the costs and expenses necessary for obtaining the profit, as detailed in the law.

The law defines in some detail the "permanent establishment," which was not mentioned in the previous Income Tax Law No. 157 of 1981.

The law decreased the income tax rate on the net yearly profits for juristic persons from 40 per cent to 20 per cent, with the exception of companies that are prospecting for oil and gas (which will be subject to a rate of 40.55 per cent).

The law also provides for phasing out tax exemptions for newly established companies. Companies listed on the Stock Exchange will also lose the tax-exempted status of their paid-in capital.

Additionally, the law grants a general amnesty for taxpayers who have cases before the court in which there is disagreement between the taxpayer and the Tax Authority on the estimation of the amount of tax owed, provided that the contested amount does not exceed EGP 10,000.

Moreover, the law provides for a settlement process in tax evasion or other cases upon request from the concerned person within one year of the law's entry into force.

Over the longer term the government will develop the administrative capacity of the state to collect taxes. A plan has been set forth to promote awareness among taxpayers and encourage them to take part in the reform.

The various tax exemptions provided in the previous income tax law for companies listed on the stock exchanges and employing a certain number of workers have been abolished, on the understanding that the lowering of the income tax rate by 50 per cent (i.e. 20 per cent instead of 40 per cent) provides fair compensation for the abolition of tax exemptions.

Exemptions Provided by the New Tax Law

The following types of profit and revenue accruing to juristic persons are exempt from taxes under Law No. 91:

- Profits from reclamation or cultivation of reclaimed land for a period of 10 years starting from the date of beginning the activity
- Profits from animal, poultry and fish production for a period of 10 years starting from the date of beginning the activity
- Revenues from investments in securities that are listed on the Egyptian stock exchanges
- Returns on bonds and securities listed on Egyptian stock exchanges and returns on investment funds established in accordance with the Egyptian stock exchange law
- Distributions and profits obtained by Egyptian-domiciled persons from their participation in other-domiciled juristic persons.
- Returns on securities issued by the Egyptian Central Bank and held by juristic persons or the returns from dealing in those securities.

Sales Tax Law

The Sales Tax Law No. 11 of 1999 was amended by Law No. 9 of 2005. The amendment aims at alleviating the tax burden by granting more exemptions to certain goods that are important to low-income groups. The amendment also reconsiders tax categories on some goods and seeks to resolve tax problems concerning used goods and the absence of regular bookkeeping and reporting methods.