EGYPT

Trends and Developments

Contributed by:
Omar Sherif, Omneya Anas and Rokaya Ghoneim
Shalakany Law Office see p.5

Introduction

The Egyptian economy has been subject to significant pressure due to several concurrent events including the Russian-Ukrainian conflict, the repercussions of the COVID-19 pandemic, and the outflow of hot money whereby investors are increasingly moving their funds between counties to benefit from interest rates and short-term returns. As has been the case on a global level, the Egyptian economy is suffering from inflation and the economic constraints experienced has resulted in the significant devaluation of the Egyptian pound against the US dollar.

In light of the above, the Egyptian authorities including the Ministry of Finance (MoF), the Egyptian Tax Authority (ETA), the Financial Regulatory Authority (FRA), the Central Bank of Egypt (CBE), and the Egyptian Stock Exchange (EGX) have been preparing a lengthy and extensive economic plan to circumvent the economic repercussions faced, which include a set of tax reforms, in its much-anticipated five-year tax policy document (the "Five-Year Tax Policy").

Although the MoF has yet to officially issue the Five-Year Tax Policy, several sources have provided preliminary input on the same, which includes a set of tax reforms highlighted below.

In addition to the above, the MoF have recently signed a new agreement with the International Monetary Fund (IMF) extending the funding received by an additional USD3 billion. As part of the agreement concluded, the Egyptian government must work towards undertaking certain tax reforms, as further detailed below.

The Egyptian authorities have been further enhancing the digitalisation process of the tax system by establishing additional rules to the electronic invoicing system established (the "E-Invoice System") and a timeline for its full application with a view to completing the transition phase from the old-school taxation system to a fully functional E-Invoice System by 2025.

With a view to completing this transition phase, the ETA has taken additional steps to finalise the settlement of all pending tax disputes in order to complete its digitalisation strategy with a clean tax slate.

Following the enactment of amendments to the VAT Law containing several tax incentives in early 2022, the Egyptian legislature has introduced additional incentives to continue its goal of encouraging investment.

Phase II of the Tax Digitalisation

The transformation of the Egyptian tax system to a fully digitalised platform is well underway and the ETA, in co-operation with the MoF, has taken active steps in fulfilling this objective since 2018.

Following the enactment of the E-Invoice System, the ETA has taken more active steps to facilitate the shift to the digital platform for all taxpayers across the country. In this regard, a decree has been issued obliging all corporate taxpayers registered with the ETA to issue their e-invoices for services provided and products sold to end consumers according to the governorate and industry-specific schedule provided in the decree and in accordance with the timeline provided for complying with the same (the “E-Invoice Decree”). This timeline provides the legally required timeframes for the corporate taxpayers to ensure they have fully implemented the shift to the E-Invoice System and to ensuring all invoices are registered on the platform.

The E-Invoice Decree requires all corporate taxpayers to be registered on the E-Invoice System and to use the specific coding systems for their products and services (either the GSI or the EGS coding systems).

According to the E-Invoice Decree, the timeline for compliance is split into phases where corporate taxpayers located in the main Governorates of Egypt, namely Cairo and Alexandria, have been prioritised. For Cairo and Alexandria, the deadlines provided for the various sectors to comply are as follows.

- For the healthcare and tourism sectors: 15 April 2023.
- For the transportation, automobile and education sectors: 15 July 2023.
- For the clothing sector: 15 October 2023.
- For the insurance sector: 15 January 2024.
- For the sale of F&B products and recreational activities: 15 April 2024.

As for the corporate taxpayers located in the remaining governorates in Egypt, the E-Invoice Decree grants the various sectors deadlines between July 2024 and July 2025, in accordance with the same order of priority for the various sectors outlined above.

In a recent conference, Dr Mohamed Maait, the Minister of Finance, praised the E-Invoice System and took pride in its progress. At this stage, Dr Maait has indicated that over 260,000 corporate entities have successfully registered on the E-Invoice System and an average of 35 million e-invoices are registered on a monthly basis. In total, approximately half a billion e-invoices have been registered on the E-Invoice System since its enforcement.

Dr Maait further indicated that the goal will be to ensure all corporate entities are duly registered and only deal with entities registered on the E-Invoice System, to facilitate an easier tax process and a monitored and fully digitalised tax system. In this regard, the ETA will only recognise entities and e-invoices registered on the E-Invoice System and non-compliant entities will be abrogated. According to Dr Maait, the E-Invoice System will facilitate the ETA’s ability to catch tax fraud and instruct the tax fraud investigative unit to investigate such cases.

ETA Settlement of Disputes

As part of the growing effort to digitalise the tax system, the MoF and ETA have further established a goal of ensuring all pending tax disputes and tax settlement claims are duly resolved prior to the full shift to digitalisation.

In this regard, Egyptian legislators have issued a law encouraging entities to settle their pending tax disputes by offering a subsidised payment mechanism. The ETA will forego 65% of any delay penalties due for late tax payments provided that the relevant taxpayer pays the original tax debt due.

This mechanism will be applicable on any pending tax claims relating to, inter alia: (i) income tax

(ii) customs tax (iii) sales tax (iv) real estate tax (v) stamp duty tax and (vi) VAT.

The above incentive to settle pending tax claims is applicable on all tax debt incurred prior to the enactment of the above-mentioned law (ie, 28 July 2022) or until 31 August 2022.

VAT Incentives

VAT has been at the forefront of the Egyptian tax reforms in recent years since the enactment of the VAT Law in 2016. Since then, the Egyptian legislature has been actively amending the VAT Law and issuing decrees to facilitate its application, and frequently adopts VAT incentives to encourage investment in Egypt, particularly in the industrial and manufacturing sectors.

New amendments have been issued with a view to improving the use of the E-Invoice System by retailers and service providers through the inclusion of end consumers in an incentive system (the "Incentive System"). The Incentive System aims to improve the efficiency of the tax-collection process and promotes the use of the E-Invoice System that is expected to increase the number of e-invoices uploaded on the platform.

These amendments grant the MoF, upon the Cabinet's approval, the ability to establish the Incentive System in the form of discounts, purchase vouchers, or pecuniary and in-kind prizes which may be granted to end consumers. Said incentives are offered to end consumers when a valid tax invoice or electronic tax receipt is submitted or in the case an end consumer informs the ETA of violations of the tax invoicing rules by a seller.

An additional decree has been issued exempting the purchase of machinery by companies in the industrial sector from VAT for a period of one year. This applies to machinery purchased both locally and imported materials from abroad. Furthermore, goods or services purchased for products in a special economic zone will be exempt from VAT.

The Future of Tax

Tax reforms in Egypt have been significantly prioritised by the Egyptian legislature in recent years on account of two main pillars: (i) digitalising the tax system to keep up with global developments and to pave the way for a more efficient tax system; and (ii) responding to growing economic difficulties in a manner that relieves taxpayers whilst promoting greater investment opportunities.

In an effort to cater for the above two pillars, the Egyptian government has signed a new agreement with the IMF extending the current funding by USD3 billion, with a possibility to extend the funding by an additional one billion. As part of the agreement, the Egyptian government has committed to undertaking several key economic policy reforms including the elimination of exemptions and increasing tax brackets. As a result, it is expected that tax amendments will continue to make headlines in Egypt as they are a key aspect on the Egyptian government's agenda.

In addition to the above, the MoF's Five-Year Tax Policy report is expected to be officially published within the coming months. This report will encompass a detailed overview of the annual tax expenditure of Egypt with estimates of tax exemptions and tax breaks as well as a detailed outlook on what to expect in the near future.

According to Dr Maait, the Five-Year Tax Policy is expected to introduce changes to the capital gains tax and the income tax. Corporate income tax is, however, expected to remain unchanged (currently at 22.5%) and Dr Maait has vowed to keep the corporate income tax unchanged for the entire duration of his appointment.

As a final note, the Five-Year Tax Policy, once officially published and ratified, will result in the tax system remaining untouched for the five-year duration.

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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 was 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. She has also worked on a number of high-profile M&A transactions that require an extensive and advanced level of due-diligence reports.

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 Kings College in London. Rokaya drafts and reviews all types of contracts and has assisted in drafting legal opinions to various premium clients on different aspects of corporate, commercial, projects, capital markets and tax issues. Rokaya primarily handles M&A and has worked on transactions that required an extensive and advanced level of due-diligence reports.

Shalakany Law Office

12 El Marashly Street
Zamalek
Cairo, 11211
Egypt

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